

# The Theory of the Balance of Trade in England: A Study in Mercantilism

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England: A Study in Mercantilism**





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OF  
THE BALANCE OF TRADE  
IN ENGLAND

*A STUDY IN MERCANTILISM*

BY  
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## Preface.

As a historical problem the current of thought, generally known as the Theory of the Balance of Trade, offers much of interest to the economic student. It played a central part in economic reflections from the end of the sixteenth century till about the middle of the eighteenth. Then it lost all its former significance and was derided as a crude economic fallacy. But in the last fifty years or so, the wheel has turned once more; the mercantile idea has met with more appreciation among economic historians.

In face of the historical importance and later fortunes of the balance theory, it is amazing how little attention actually has been paid to it by economic students. Outside economic text-books and dictionaries and general histories of economic thought, where the space allotted to this particular question has been necessarily limited and the treatment, though often containing instructive suggestions, rather superficial, the balance theory has seldom been submitted to a separate examination. The ablest study of the question, is still to-day H e y k i n g, *Zur Geschichte der Handelsbilanztheorie* (1880). It relates carefully the origin of the theory, but is in other respects less instructive, since only a first part was ever published. The book is also already antiquated in some of its conclusions. Another treatise wholly devoted to the balance theory is P e t r i t s c h, *Die Theorie von der sogenannten günstigen und ungünstigen Handelsbilanz* (1902). The historical part of this book starts, however, from wrong premises and is, therefore, of no use whatever for the better understanding of the mercantile theory. Here may also be mentioned S c h a c h t, *Der theoretische Gehalt des englischen Merkantilismus*

(1900). It is a book written with good sense and contains useful hints as regards the balance theory.

In English, there does not seem to exist any special study of the mercantile theory of the balance of trade.

Thus, a thorough study of the theory of the balance of trade is still wanted. The present short study makes no pretensions to supply the place of such a study; it is to be regarded only as a step in that direction. It deals only with the literature of a particular country, though, indeed, the most important one. And it gives no history of the balance theory, but is confined to a narrower question: it examines the economic fundamentals and the importance of the theory as appearing in the mercantile literature of the seventeenth century when mercantilism was at its height. Only as throwing light upon the particular problems dealt with, is reference made to later economists, or to the literature of other countries.

During the course of my work I have received kind assistance from many quarters, which it is my agreeable duty to acknowledge. I am under great obligation to Prof. Y. Jahnsson, Helsingfors, who was the first to direct my attention to problems of mercantilism, and to Prof. J. V. Tallqvist, Helsingfors, whose inspiring suggestions and helpful criticism have given me effective guidance in my work. For much valuable advice, I am indebted to Dr. J. Bonar, London, and to Prof. Edw. Cannan, of the London School of Economics. My best thanks are also due to Mr. S. Sydaey Silverman, Lecturer in English at Helsingfors University, for help rendered me in point of language.

Lastly, I cannot refrain from expressing my deepest gratitude to Prof. Hugo Suolahti, Helsingfors, who has during the course of many years given me all possible advice and encouragement.

Helsingfors, May 1923.

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## I. Introduction.

The fourteenth century, the fifteenth and the first half of the sixteenth form in England a period of transition from feudal to capitalist society.

Feudal society was an aggregation of manorial and municipal groups. These local groups, which were predominant in the field of economic authority, were each of them directly connected with the central authority, the King. The economic power of the King was limited to securing good administration, collecting the revenue satisfactorily and providing a sound currency.

Money played in feudal society an insignificant role. In the country the manorial system made natural economy predominant; the villages, living on what they produced, came seldom into contact with the outside world. In the Middle Ages the great majority of the population lived in the country. But even in the town where the gild system was prevalent, money did not play any considerable part, though here money had earlier been substituted for natural economy. Little capital was needed, economic expansion and effective competition being largely restricted and directed by local customs and gild regulations. It was an economy whose keynote was production to order, and where every one did just what his father had done.<sup>1</sup>

<sup>1</sup> Seligman, *Principles of Economics*, p. 113.

These characteristics of the feudal system disappeared little by little during the period of transition, giving place to a new economic order characterized by a gradual introduction of money economy all over the country and by the submission of local groups to a powerful central authority.

With money economy the scope of economic life expanded, distribution became more rapid, city life more important. The power of everyone to steer his course in life according to his own choice was much strengthened. Enterprising men were awakening to a perception of the economic power which money represented and to strive for the big profits which capital stock, if wisely employed, gave to its owner. »Money had come to be a thing for which everyone sought, not exactly for its own-sake, but because of its purchasing power; it was a convenient representative of all other objects of wealth, and, as such, a thing of which each man desired to have as much as possible. From this time forward the desire of wealth, as the means of gratifying the desire of social distinction and all else, became a much more important factor in economic affairs than it had been before.»<sup>1</sup>

This new capitalist spirit appeared all over the field of economic activity: in the transition from the craft to the domestic system, in the increasing importance of manufactures and their reorganisation on a basis of wage-labour, in the enclosing of many manorial estates into large sheep-runs worked by capitalist farmers; in the extension of commercial activities. With all this, mediaeval groupings and distinctions tended to disappear; old barriers of status were broken down, classes merged together and commercial enterprise extended far beyond the narrow limits of feudal groups. Place was given to new classes; a capitalist class and a labouring class.

This basic tendency of the age, common to the whole of Western Europe, was the most efficient agency in the transformation of

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<sup>1</sup> Cunningham, *Growth of English Industry. Early and Middle Ages*, p. 465.

municipal economics into national economics: the authority of local groups was being gradually weakened, at the same time as that of the central government came to be strengthened. In some countries, e. g. in Italy and Germany, this basic tendency of economic development was checked by the division of political power; in England, on the contrary, the process was facilitated and accelerated by political factors, which were steadily working towards the same ends. It is impossible to ascertain how far the economic development was the cause, how far the effect of political centralization.

The movement towards political centralization had its origins so early as the reign of William I. who welded the several parts of England into a united kingdom. The next great step was taken in the thirteenth century when Edward I., by instituting the representation of the people and reorganising the fiscal system, »provided the machinery by which the whole subsequent development of English industry and commerce has been directed and controlled». <sup>1</sup> This national policy was successfully pursued by subsequent monarchs along the same lines. By the reign of Henry VII. the work was practically finished; all working economic institutions had assumed a national character.

The concentration of national economic life under the direction of a powerful central government, awakened a national spirit and gave rise to an economic policy designed to further national aims as distinct from the aims of individual citizens, or local groups. The germs of this new policy, of Mercantilism, may first be discovered in the legislation of Richard II.'s reign. »It was a policy of encouraging the native shipping which Edward III. had neglected; it favoured native merchants, and subsequently artisans, in opposition to aliens, and at the possible expense of consumers; there were deliberate attempts to encourage the agricultural interest and especially the corn grower; part of this new scheme was an endeavour to attract the importation of bullion for the accumu-

<sup>1</sup> Cunningham, o. c. Early and Middle Ages, p. 262.

ation of treasure and not merely with a view to the maintenance of the purity of our coinage.»<sup>1</sup>

The essence of the mercantile policy was to prefer the producer to the consumer and, the native to the foreigner. On these lines mercantilism developed steadily during the course of subsequent centuries. Measures which were at first unsystematic and primarily adapted to meet certain practical needs, were gradually co-ordinated into a complex and well-articulated system of national policy. Production was subjected to systematic regulation; manufactures were supported with the object of maintaining and securing foreign markets; shipping was encouraged by laws of navigation; agriculture, by corn laws; high duties on imports and prohibitions were resorted to for resisting the introduction of anything but raw materials and gold and silver from abroad.

The measures which were taken to guard against a scarcity of money and to secure the hoarding of state treasure, formed an organic part of this mercantile policy. They may be divided into two classes: those which aimed at preventing the melting down and export of bullion and those which aimed at securing a regular influx of bullion. These measures developed gradually during the later centuries of the Middle Ages into an intricate and detailed policy, that has been called «The System of the Balance of Bargain».<sup>2</sup>

This name has been chosen because it characterizes the means by which legislation was pursuing its aims. The design was that the state should be present, by its agents, at every bargain made between the home country and other countries and see that such bargains were directly productive of bullion. The staple places, especially that of Calais, established in 1363, came to play a most important role in the practical execution of this design; the trade

<sup>1</sup> Cunningham, o. c. Early and Middle Ages, p. 377.

<sup>2</sup> This name was first invented by Richard Jones, in the article: «Primitive Political Economy of England», published in the «Edinburgh Review», April, 1847.

being limited to these few places of relatively narrow area, an effective supervision of bargains in staple commodities, of which wool was the most important, was made possible for the government. To exercise this supervision, a King's Exchanger was appointed. He and his agents had to check all money transactions between the home and foreign countries and to see that rules fixing the quantity of ready money to be brought home from every bargain, and other such rules, were strictly observed by merchants.

Such were the fundamentals of the system of the balance of bargain. They were suited to the peculiar circumstances of the latter end of the Middle Ages. Their day was however not long. With the further development of economic and political life, there arose several distinct agents at once displacing and suspending the working of its machinery.

The staple-trade was destroyed by the extension of commercial activities. Especially the mystery and company of the Merchant Adventurers for the discovery of regions, dominions, islands, and places unknown, were breaking new ground for English commerce in distant markets and thereby putting an end to the exclusive privileges of the staple-towns. At the same time the sphere of English export-industry was expanding, above all through the growth of the cloth industry. As long as wool had been the chief object of English export, the foreigner had been compelled to fetch it from the staple; now the English merchant, in his turn, was compelled to leave the staple place in order to find buyers.

There was yet another tendency in this development, equally destructive of the methods of traditional policy, viz. the expansion of credit. The use of credit facilities, especially the use of bills of exchange, was by that time far from being a new invention. There had existed, since the thirteenth century at least, in important commercial places, above all in Florence and Antwerp, money exchangers who used to check and register the rates of exchange of different currencies. The manipulations of these men had, naturally, early attracted the attention and suspicion of legal authorities. And it had been prescribed, that the negotiation of

bills of exchange should be strictly confined to the King's Exchanger and his agents.

With time, however, the greater use of bills of exchange, instead of ready money, rendered the supervision of business in detail useless and impossible. How far conditions had actually advanced by the sixteenth century, appears from the fact that the great financiers, whose principal establishments were at Antwerp, were quite accustomed to watch the principal money markets of Europe, and to transfer large sums to those places where the rate of interest was attractively high.<sup>1</sup> Evidently, the movements of precious metals were already beyond the scope of controlling officials.

The system of the balance of bargain came formally to an end in 1558, when Calais, for long the only English staple-place, fell into the hands of the French, though even before that time the system had, as has been pointed out, been superseded, by the actual development of economic life. And when attempts were later made, e.g. by James I. and Charles I., to renew the old practice of the King's Exchanger, they were wholly out of date, as appears from the petition presented by the Goldsmiths in 1608 against the appointment of an Exchanger. They asserted that this office was only used in the tyme of ignorance, when Goldsmiths were fewe and pore, not able to buy bullion.<sup>2</sup>

Only one feature of the old system was more tenacious of life, namely the prohibiting of bullion export. This 'bullionist' policy continued far into the seventeenth century. With advancing time the fruitlessness of such a policy became, however, more and more manifest. Even more than the manipulations of money exchangers the activities of the East India Company, established in 1600, were bound to direct the general attention to the shortcomings of bullionist policy. For the East India Company was forced to carry on its trade by a continuous export of bullion, since English

<sup>1</sup> Cunningham, *o.c.* *Modern Times*, p. 146.

<sup>2</sup> Hewins, *English Trade*, p. XXV.

products were not sufficiently in demand in the East. As an example of the attention paid for this reason to the Indian trade, the following passage from the instructions of the Standing Commission on Trade of 1622, may be quoted: »Because the East India Company have been much taxed by many for exporting the coin and treasure of this realm, to furnish their trade withal, or that which would otherwise have come in hither, for the use of our subjects — — we authorize you to inquire and search whether that company do truly and justly perform their contract with us concerning the exportation of money, and by what means that trade, which is specious in show, may be made profitable to the kingdom.»<sup>1</sup>

At last, in 1663, the bullionist policy was abandoned by Parliament. An Act was passed permitting the exportation of bullion without licence. Thus, the principle of free trade in bullion had become official policy, though in practice this Act proved itself, for a long time, and with many oscillations, impossible of execution, and the Government continued to meddle, by legislation and proclamation, with the export of the precious metals.<sup>2</sup>

During the long decay of the balance of bargain system, the principles of the balance of trade were being advanced. These principles form the theoretical counterpart of the political movement towards the system of free trade in bullion, but they cannot be called an economic theory, in the proper sense of the term, though they are commonly called »The Theory of the Balance of Trade». The early mercantilists used not to analyse economic

<sup>1</sup> Hewins, o. c., p. XXVII. — It may be noted that according to Laspeyres, in Holland too the East Indian trade deepened the understanding of commercial principles: »The East Indian Trade contributed, in my opinion, most to a right judgment, though, or all the more, because it carried much money from the country. That the trade to the East Indies was advantageous, not only to the Company, but to the whole country, was not denied by anybody» (Geschichte der volkswirtschaftlichen Anschauungen, p. 283).

<sup>2</sup> Shaw, The History of Currency, p. 163.

phenomena sine ira et studio; they were less propagating economic theory, than pursuing certain practical aims, e. g. pleading on behalf of the commercial practices of the East India Company. The principles of the balance of trade, unsystematically introduced throughout the writings of mercantile economists, only become in the hands of the laborious inquirer a 'Theory of the Balance of Trade'.

When we now proceed to analyse this theory, we may approach it from two different sides. There is first the outward appearance of the balance of trade that may properly be called the Mechanism of the Balance of Trade. Questions here demanding solution, are: How did this mechanism function? What were the limits of its functions? And what of criterions by which the state of the balance of trade was to be ascertained? These are the most outstanding problems of the theory of the balance of trade; they are also the best known part of the theory. But there is another aspect, equally essential, which we may call the Importance of the Favourable Balance of Trade. This aspect is comprised in the question: Why was the favourable balance of trade regarded as so highly important? This question has been greatly neglected in economic studies dealing with the problems of mercantilism, having usually been briefly dismissed with some conventional phrases about mercantile fallacies and exaggerations.

## II. The Mechanism of the Balance of Trade.

The early decades of the seventeenth century witnessed the first economic controversy of importance in England. The controversy, carried on in numerous pamphlets, was one between the partisans of the declining system of the balance of bargain and their opponents, who adhered to the new principles of the balance of trade. The question in dispute was, whether the rates of exchange were to follow official rates, or whether they exclusively depended on the market value of gold and silver. The advocates of the older system were able to support their pleas for bullionist policy by citing the conception, sanctioned by long tradition, of the forces which determined the value of money. According to that conception, money was «artificial riches» upon which the prince, by his own declaration, had bestowed a conventional value. This conventional value, «valor extrinsecus», was not a wholly arbitrary one — such was the advanced opinion among economists adhering to this theory of value — but was to be fixed by common estimation and according to the value of the metal the coin was made of, i.e. according to the «valor intrinsecus». <sup>1</sup> That point of view was, for instance, brought forward

<sup>1</sup> To this group of thinkers belonged e.g. S. Thomas Aquinas who impressed upon princes that the valor extrinsecus was not fictitious but was to be kept close to the valor intrinsecus (Oncken, *Geschichte der Nationalökonomie*, I. p. 127). Many other famous economists, such as Oresme, Buridan, Copernicus, Dumoulin, were of the same opinion (Tallqvist, *Merkantilistiska banksedelteorier*, p. 137).

in 1553 in a paper written by John Pryse, who argued that the prince could not arbitrarily rate his coin at his pleasure, but that he must take account of the value of the metal that is in it.<sup>1</sup> But when this legal rate was once assigned, it was to be constant, so it was believed, and was to remain the same everywhere. Any deviation from the legal rate was regarded as an abuse and an interference with the prince's prerogative. Strong prejudice prevailed, therefore, against the meddling of private financiers and goldsmiths with the fixed rates. And every time the exchange happened to alter adversely, these irresponsible persons were charged with having deliberately undervalued the coin, thereby amassing wealth at the expense of the public and to the detriment of the country.

Milles, an officer of the outports, was one of the advocates of the decaying system. He published in 1604 *The Customers Replie*, in which he called loudly for the protection of the ancient principles and practices, by which the foreign trade of the country, better looked after and more efficiently controlled, was forced by the wisdom of the state to contribute to its wealth and strength: *That merchandising exchange is that laborinth of errors & private practise, whereby (though kings weare crownes & seem absolutely to raigne) particuler bankers, private societies of merchants, & covetuous persons (whose end is private gayne) are able to suspend their counsailes & controle their pollicies, — thus making kings to be subiects, and vassalles to be kings.*<sup>2</sup>

Gerard de Malynes was the ablest and most obstinate defender of the supposed right of the prince. As merchant and one of the Assay Masters of the Mint he had much practical experience in matters of exchange.<sup>3</sup> He denounced, in numerous pamphlets, the tricks (of which he enumerated twenty four) of exchangers, who by setting up their own rate as distinct from that of the prince,

<sup>1</sup> Cunningham, o. c. *Modern Times*, p. 161.

<sup>2</sup> Milles, *The Customers Replie*, p. 33.

<sup>3</sup> Hewins, o. c., p. XXII.

were controlling the price of money and commodities »This course of exchange being abused, and of late years become as it were a trade in rising and falling in price, according to plentie or scarcitie of monie, and in regard of discrepance and distance of time and place, is become predominant or doth over-rule the course of commodities and money, and is the very efficient cause of this overballancing of commodities before spoken of, and consequently of the decrease of our wealth, and exportation of our monies »<sup>1</sup>

Instead of such irresponsible persons, the Government should take over »the predominant part of trade, namely the mystery of exchange» and settle the question of exchange on the principle of *par pro pari*, value for value.<sup>2</sup> For, he argued, »The rule is infallible, that when the exchange doth answer the true value of our moneys according to their intrinsicke weight and finenesse, and their extrinsicke valuation they are never exported, because the gayne is answered by exchange, which is the cause of transportation. This cause being prevented, maketh the effect to cease»<sup>3</sup>

The critics of these bullionist principles started from a contrary point of view. Value was not bestowed upon money by princes, but was exclusively dependent upon the intrinsic, the metallic value of the coins, the value could not, therefore, be of the nature of a constant, but would follow the market value of gold and silver. John Hales seems to have been the first in England clearly to expound this theory in his »Discourse of the Common Weal». He asserted with great emphasis that the value of money was in a natural way fixed by the course of trade and would not follow the assigned denomination. »Have ye not made proclamacions, that oureould come, specially of gold, that it should not be currant heare above such a price? is not that the rediest waie to drive awaie oure gold from us, as everie thinge will goe wheare

<sup>1</sup> Malynes, *A Treatise of the Canker*, pp 15—16

<sup>2</sup> Malynes, *The Center*, p 137

<sup>3</sup> Malynes, *Maintenance of Free Trade*, p 14

it is most esteemed? and therefore oure treasure goeth over in shippes.»<sup>1</sup>

The decisive attack against the old theory, however, did not take place until the first decades of the seventeenth century, the victorious assault being delivered by two merchants of importance, Edward Misselden and Thomas Mun. The exchange theories of Milles and Malynes were overthrown by them. The former summed up his point of view as follows: «It is not the rate of exchange, whether it be higher or lower, that maketh the price of commodities deare or cheape, as Malynes would here inferre; but it is the plenty or scarcitie of commodities, their use or non-use, that maketh them rise and fall in price. Otherwise, if Malynes rule were true that the prices of commodities should perpetually follow the rates of exchange; then commodities should all rise and fall together, as the exchange riseth or falleth. But — commonly one commodity riseth when another falleth; and they fall and rise, as they are mor or lesse in request and use.»<sup>2</sup>

Thomas Mun was at pains to repudiate one by one the twenty-four tricks by which money exchangers were, according to Malynes, controlling prices and commodities, as existing only in Malynes' own imagination.<sup>3</sup> The opinion he gave of Malynes'

<sup>1</sup> Hales, *Discourse of the Common Weal*, p. 79. It may be of interest to notice that Sir Thomas Gresham had already earlier followed in his policy antibullionist principles, if not as a consequence of theoretical considerations, then of practical necessity: «He told Henry VIII. — that foreign commerce could no more exist without exchange, than a ship float without water; and declared, that if the course of the mercantile exchange was interrupted, the transactions of the approaching Bartholomew fair — would be paralysed» (Jones, *o. c.* *Edinburgh Review*, 1847, p. 443). When Gresham later, in 1558, enunciated the economic law known as «Gresham's law», he had clearly rejected bullionist principles. — Outside England, Jean Bodin and Scaruffi were early formulators of the theory that the value of money was wholly determined by its intrinsic value. (Tallqvist, *o. c.*, pp. 138—9).

<sup>2</sup> Misselden, *Circle of Commerce*, p. 21.

<sup>3</sup> Mun, *England's Treasure*, pp. 62—64.

plans, ran as follows. In vain therefore hath Gerard Malynes laboured so long, and in so many printed books to make the world believe that the undervaluing of our money in exchange doth exhaust our treasure, which is a mere fallacy of the cause, attributing that to a secondary means, whose effects are wrought by another principal efficient, and would also come to pass although the said secondary means were not at all. As vainly also hath he propounded a remedy by keeping the price of exchange by bills at the *par pro pari*, by publick authority, which were a new-found office without example in any part of the world, being not only fruitless but also hurtful.<sup>1</sup>

The controversy between Milles and Malynes on the one hand, Misselden and Mun on the other, seems to have given the death-blow to the old idea that the value of money was constant. All later mercantile writers of the seventeenth century, all of any importance, at least, who deal with this question adhere to the new principles. Thomas Hobbes, the philosopher, has given this point of view a fine expression. And because silver and gold have their value from the matter it self they have first this privilege, that the value of them cannot be altered by the power of one, nor of a few common-wealths; as being a common measure of the commodities of all places — — But that coyne, which is not considerable for the matter, but for the stamp of the place, being unable to endure change of ayre, hath its effect at home only; where also it is subject to the change of laws, and thereby to have the value diminished, to the prejudice many times of those that have it.<sup>2</sup>

Hobbes allows thus a certain validity to the bullionist theory. As far as a coin is intended to circulate internally only, its value depends upon law and may be deliberately altered by the authorities. But as soon as money endures a change of air and becomes an international phenomenon, it derives its value from the matter

<sup>1</sup> Mun, *England's Treasure*, pp. 57—8

<sup>2</sup> Hobbes, *Leviathan*, pp. 193—4

itself» and cannot be altered by anyone.<sup>1</sup> As far as foreign trade and the exchange of money are concerned, Hobbes point of view was thus decidedly against bullionist principles.

Vaughan, the first English economist to write a monograph on money, describes the value of money as follows: «I shall convince hereafter an important and a popular error, by which many are perswaded, that princes can give what value they list to gold and silver, by enhancing and letting fall their coins, whenas in truth gold and silver will retain the same proportion towards other things, which are valued by them, which the general consent of other nations doth give unto them, if there be a trade and commerce with other nations.»<sup>2</sup>

In Fortrey we find a term which afterwards occurs in numerous economic treatises by mercantile writers; money is described by him as a «commodity». He says: «For it is in this [money] as in all other commodities, where the commodity is scarce, and the vent great, the purchase is always dear.»<sup>3</sup> The term «commodity» is here evidently used to convey the idea, that the value of money is subject to just the same economic laws of supply and demand as that of anything else. That this is the true interpretation, is settled beyond doubt, when similar expressions from other economists are taken into consideration. In Sir Josiah Child we find a passage as follows: «Silver and gold, coined or uncoined, though they are used as a measure of all other things, are no less a commodity than wine, oil, tobacco, cloth, or stuff, and may in many cases be exported as much to national advantage as any other commodity.»<sup>4</sup> Petty asserts that if there are too many coins «we may melt down the heaviest,

<sup>1</sup> It may be of interest to note that a later philosopher and economist of eminence, Montesquieu, has expounded a similar theory to that of Hobbes of the dual character of the value of money (O n c k e n, *Geschichte der Nationalökonomie*, I. p. 269).

<sup>2</sup> Vaughan, *A Discourse of Coin*, pp. 7—8.

<sup>3</sup> Fortrey, *England's Interest*. Econ. Tracts, p. 31.

<sup>4</sup> Palgrave's Dictionary, I. p. 277; Child.

and turn it into the splendor of plate, in vessels or utensils of gold and silver; or send it out, as a commodity, where the same is wanting or desired; or let it out at interest, where interest is high». <sup>1</sup> North points out that »in this course of trade, gold and silver are in no sort different from other commodities, but are taken from them who have plenty, and carried to them who want, or desire them». <sup>2</sup>

D' Avenant expresses the same idea as follows: »The want or plenty of any commodity does give the rule to its price, between country and country, and not only things of necessity, but those of luxury, are subject to these variations, which money, the servant of trade, is forced to follow.» <sup>3</sup> Bishop Fleetwood preached on December 16, 1694 a sermon, in which he said: »The merchant that exports less goods from home than he imports from abroad must unavoidably discharge the over balance with good money: this he can never do with clipped: for it is not Caesar's face and titles, but weight and goodness that procure credit.» <sup>4</sup>

Of the seventeenth-century writers it is, however, Locke who gives the most explicit theory of the factors which determine the value of money. He has set down his view in various passages of his »Considerations» and »Further Considerations of the Lowering of Interest». Thus he says: »The rate of money does not follow the standard of the law, but the price of the market.» <sup>5</sup> Another passage runs as follows: »For it is certain, that one ounce of

<sup>1</sup> Petty, *Quantulumcunque*. Writings, II, p. 446. Cf. also the following passage: »Raising or embasing of moneys is a very pittiful and unequal way of taxing the people; and it is a sign that the state sinketh, which catcheth hold on such weeds as are accompanied with the dishonour of impressing a princes effigies to justifie adulterate commodities, and the breach of publick faith, such as is the calling a thing what it really is not» (Petty, *A Treatise of Taxes*. Writings, I. pp. 90—4).

<sup>2</sup> North, *Discourse*. *Econ. Tracts*, p. 25.

<sup>3</sup> D' Avenant, *Discourses on the Public Revenues*. Works, I. p. 355.

<sup>4</sup> Macleod, *Theory of Credit*, p. 534.

<sup>5</sup> Locke, *Considerations*. *Essays*, p. 583.

silver is always of equal value to another ounce of silver, considered in its intrinsic worth, or in reference to the universal trade of the world: but it is not of the same value, at the same time, in several parts of the world, but is of the most worth in that country, where there is the least money, in proportion to its trade.<sup>1</sup> And in another place he explains that «money therefore, in buying and selling, being perfectly in the same condition with other commodities, and subject to all the same laws of value — —».<sup>2</sup>

<sup>1</sup> Locke, o. c. Essays, p. 592.

<sup>2</sup> \* \* \* , o. c. Essays, p. 582. It is somewhat embarrassing when Locke elsewhere asserts that the general consent of mankind put an imaginary value upon gold and silver and made them, by general consent, the common pledges (*Considerations. Essays*, p. 572). Such a theory of value, seemingly in contrast to that advanced in passages referred to above, must be regarded as a mere abstraction describing the origin of money in the spirit of natural philosophy, but having little to do with the actual phenomena of economic life, as becomes fully evident when Locke proceeds in the passage referred to assert that gold and silver procure, as money, what we want or desire, only by their quantity, the intrinsic value of silver and gold, used in commerce, being nothing but their quantity. (*Considerations. Essays*, p. 572). It may be noted that John Law rejected Locke's theory of the imaginary value of money in sharp words: «I cannot conceive how different nations could agree to put an imaginary value upon any thing, especially upon silver, by which all other goods are valued; or that any one country would receive that as a value, which was not valuable equal to what it was given for; or how that imaginary value could have been kept up.» — «It is reasonable to think silver was barter'd as it was valued for its uses as a mettall, and was given as money according to its value in barter. The additional use of money silver was applied to would add to its value, because as money it remedied the disadvantages and inconveniences of barter.» (*Law, Money*, pp. 14—16).

If we thus are fully justified in including Locke among economists attributing to money a «commodity» character, there was another economist, Nicholas Barbon, who clearly discarded the view generally accepted in his time. He suggests: «Money is a value made by a law; and the difference of its value is known by the stamp, and size of the piece» (*A Discourse of Trade. Econ. Tracts*, p. 16). And in an other place: «Money is an imaginary value made by a law, for the conveniency of exchanges» (O. c., p. 22).

We have thus been able to understand how an economic principle, whose early formulators were Hales, Misselden and Mun, was gradually developed into a sharply-cut economic doctrine, to which mercantile economists at the end of the seventeenth century generally adhered.

This theoretical insight into the commodity character of money<sup>1</sup>,

— Barbon's point of view is closely related to earlier bullionist principles. Yet it would hardly be fair to include him among bullionists. The whole argumentative method marks him, rather, as an early forerunner of later chartalism which theoretically separates money from its metallic basis. (The chief formulator of this theory has been Professor Knapp with his *Staatliche Theorie des Geldes*). The chartalist trend of thought appears in the following words of Barbon: «It is not absolutely necessary, money should be made of gold or silver; for having its sole value from the law, it is not material upon what metal the stamp be set» (O. c. Econ Tracts, p. 16).

<sup>1</sup> It is of some importance to note that in the eighteenth century money was sometimes described as a commodity in another sense than above. Joshua Gee writes, for instance: «So mistaken are many people, that they cannot see the difference between having a vast treasure of silver and gold in the kingdom, and the Mint employed in coining money, the only true token of treasure and riches, and having it carried away; but they say, money is a commodity like other things and think themselves never the poorer for what the nation daily exports» (The Trade, p. 34). Gee points out here that gold and silver are not commodities like other things, as they are of much greater importance; while in the passages quoted above the term «commodity» always conveyed the sense that these metals were submitted to the same economic laws as other things, not referring at all to the value of economic services rendered by them. Schacht is, therefore, evidently wrong, when comparing the passage of Gee, referred to above, with the saying of Fortrey: «Money and coin, which is also a commodity as well as the rest» (Englands Interest. Econ. Tracts, p. 26), he comes to the conclusion that Fortrey did not exaggerate the importance of money as Gee did. — It may further be of interest to notice that this ambiguous use of «commodity» caused confusion among mercantilists themselves. In the *British Merchant* we find the following passage: «Now can any man pretend to say that silver and gold are not commodities bought and sold, as any other commodities are? Are they not bought and sold in the markets daily? Is not this evident? Need any man go farther than to Lombard-street, or the goldsmiths thereabouts, to be satisfied that

together with practical experience of the futility of preventing the export of the precious metals, forms the basis of the rejection of prohibitive measures. On this point economists writing after Misselden and Mun were practically unanimous. A few specimen-passages from a rich choice may be quoted: Roberts demonstrates by the example of Spain, where «the traffike» is «wholly performed by the use of blacke and copper monies», the uselessness of sharp penalties and severe punishments for hindering the export of bullion. On the other hand, he points out, «as a thing granted and found true by experience, that in some countries and free townes, where the exportation thereof is freely allowed and admitted, and the carrying out openly permitted by authority; no such want or scarcity is discerned; but contrariwise, all abundance and plenty thereof is noted, so that this being granted, the exportation thereof may bee allowed without prejudice to the state or kingdome where we abide». <sup>1</sup> Fortrey condemns laws hindering exportation of coin in the following words: «Our gold being of less value at home then it is abroad it hath been all conveyed away within these few years, and laws to prevent it shall always prove fruitless, when it is advantageous to do it, there being means sufficient to be found to effect it, by such as shall find it profitable.

Wherefore to make laws to hinder the exportation of coin or bullion, I conceive altogether useless.» <sup>2</sup>

And Petty says: «To prohibit the exportation of money, in that it is a thing almost impracticable, it is almost nugatory

they buy silver and gold, and sell it daily?» (The British Merchant, III. pp. 121—2). To which Mercator, the opponent of the British Merchant, replied, calling it «a horrid assertions», «a sophisme», «a shuffle so scandalous that nothing but such a Mountebank-merchant as we have to do with can be concern'd in, (viz.) that bullion or silver is a merchandize or commodity which we buy in Spain, as we do the other growth of their country» (Mercator, Nr. 100). — Mercator employs the term commodity in the same sense as Gee, as clearly appears from the connection.

<sup>1</sup> Roberts, The Treasure of Traffike. Early Engl. Tracts, pp. 67—8.

<sup>2</sup> Fortrey, England's Interest. Econ. Tracts, p. 34.

and vain; and the danger of it resolves either into a kinde of en-  
 surance answerable to the danger of being seized, or unto a sur-  
 charge of a composition by bribing the searchers.»<sup>1</sup>

The only economist of consequence from the latter part of  
 the seventeenth century, approving of prohibitory laws, seems to  
 have been the author of the *Britannia Languens*. He  
 expresses his opinion as follows: »But of late years many of our  
 merchants very much contend for a liberty to export money or  
 bullion as advantagious to the trade of the nation, and have gotten  
 an Act of Parliament to legitimate the exporting of bullion, contrary  
 to many other former Statutes, and now bullion and money also  
 are become our usual exportable commodities.

But I shall oppose the ordinary exporting of money or bullion  
 in trade, especially as the constitution of our trade now is.»<sup>2</sup>

The opposition of mercantile writers of the seventeenth century  
 towards bullionist prohibitions seems not to have been shared  
 by popular opinion of the time, as appears e.g. from Mun's  
 assertion that »the exportation of our moneys in trade  
 of merchandize is a means to encrease our treas-  
 ure. This position is so contrary to the common opinion, that  
 it will require many and strong arguments to prove it before it  
 can be accepted of the multitude, who bitterly exclaim when they  
 see any monies carried out of the realm.»<sup>3</sup> The very fact that

<sup>1</sup> Petty, *A Treatise of Taxes*. Writings, I. p. 57.

<sup>2</sup> *Britannia Languens*. Early Engl. Tracts, p. 307. The author  
 completes his view in another place of his book as follows: »Though the ordinary  
 trading with exported money is condemnable, as that which tends to the  
 subversion of manufacture and people, and facilitates meer importation;  
 yet I cannot recommend prohibitory laws as a means to stop the exportation  
 of money, unless at the same time the methods of trade be regulated» (*Brit-  
 annia Languens*. Early Engl. Tracts, p. 391). The ideal of this economist  
 was apparently, a minute state regulation, perhaps a kind of moderated  
 balance of bargain system. But he was clear-sighted enough to conceive  
 that without a thorough regulation of trade, mere prohibitory laws would  
 have remained useless.

<sup>3</sup> Mun, o. c., p. 19.

economists continued to regard repudiation of bullionism as necessary and that Malynes' *«Lex Mercatoria»* was reprinted so late as in 1686, points to enduring popular prejudices. And they were not dead even in the eighteenth century; we find e. g. Tucker exclaiming: »You will still reply, the money, the money, the money goes abroad, and in the name of common sense, so let it go; for industry will be sure to fetch it back again with increase.»<sup>1</sup>

We have above accompanied the destructive criticism that was offered by numerous mercantile writers against bullionist principles. Let us now examine what constructive principles the critics of bullionism were proposing instead of the old system they thus repudiated.

Be it first carefully observed that there was no difference between the bullionists and their opponents as to the ends to be attained. All of them were equally eager to secure to the nation the greatest possible supply of gold and silver. The title of the book of Serra, the prominent Italian economist, *Breve Trattato delle cause che possono fare abbondare li regni d'oro e d'argento dove non sono miniere*, was equally the common quest of all English mercantilists.<sup>2</sup> It was not till the eighteenth century, when mercantilism was already in decay, that the fundamental trend of bullionism as well as of mercantilism in general, the chase after the precious metals, was severely criticized.

The controversy between the bullionists and their critics was only a question of the most adequate means for successfully acquiring gold and silver from abroad. Against the adherents of the old school, as we have seen, was brought the charge, that the policy

<sup>1</sup> Tucker, *The Important Question Concerning Invasions*, p. 41.

<sup>2</sup> In England practically all gold and silver was to be procured from abroad. Locke asserted, »gold grows not, that I know, in our country, and silver so little, that one hundred thousandth part of the silver we have now in England, was not drawn out of any mines in this islands (*Considerations. Essays*, p. 569).

recommended by them was fruitless and even hurtful, as they were attributing to secondary causes something of which the effects were wrought by another principal efficient. Now, the new school, concentrating their whole attention on what was considered to be the principal cause of the influx and efflux of the precious metals, brushed all other considerations aside. Thus originated the Theory of the Balance of Trade.

Richard Ailesbury, one of the officers of the Mint, stated, in the year 1381, in evidence given before Parliament, his opinion of foreign trade as follows: »As to the fact that gold and silver come not to England, whilst that which is in England is carried abroad, — — if the merchandise exported from England be well and justly governed, the money which is in England will remain, and great plenty of money will come from abroad. It must be ascertained that no more foreign merchandise come within the realm than the value of the merchandise of this country that goes out of the realm.»<sup>1</sup>

These sentences are the earliest forerunner of the later theory of the balance of trade. But nearly two centuries were to elapse, before the principles, first proposed by Ailesbury, began to make a broader show. The first economist, resolutely to adhere to these principles, seems to have been John Hales. He recognized that gold and silver were best obtained by a favourable balance of trade: »Yf we kepe with in us much of oure commodities, we must spare manie other thinges that we have now frome beyonde the seas; for we must alwaies take hede that we bie no more of strangers then we sell them; [for so wee sholde empoverishe our selves and enriche them]. For he weare no goode husband that hath no other yearly revenewes but of husbandrie to live on, that will bie more in the markett then he selleth againe.»<sup>2</sup>

While Hales thus clearly and consciously described the balance of trade as the principal efficient of the supply and demand of

<sup>1</sup> Meredith, *Economic History*, pp. 94—95.

<sup>2</sup> Hales, *Discourse*, pp. 62—3.

gold and silver, Misselden and Mun were to become the chief elaborators and propagandists of the new system of the balance of trade; not until their time did the new principles find general acceptance among economists.<sup>1</sup> The former expressed his vision of the balance of trade in the following words: «For as a paire of scales or ballance, is an invention to shew us the weight of things, whereby we may discerne the heavy from the light, and how one thing differeth from another in the scale of waight: So is also this ballance of trade, an excellent and politique invention, to shew us the difference of waight in the commerce of one kingdome with another: that is, whether the native commodities exported, and all the forraine commodities imported, doe ballance or overballance one another in the scale of commerce.»<sup>2</sup> — «If the native commodities exported doe waigh downe and exceed in value the forraine commodities imported; it is a rule that never faile's, that then the kingdome growe's rich and prosper's in estate and stocke: because the overplus thereof must needs come in, in treasure.»<sup>3</sup> — «But if the forraine commodities imported, doe exceed in value the native commodities exported; it is a manifest signe that then trade decayeth, and the stocke of the kingdome wasteth apace; because the overplus must needs go out in treasure.»<sup>4</sup>

The principles, laid down in these sentences by Misselden in a concise and clear form, grew in the hands of Mun into a powerful economic vision. The fundamentals of this vision were expressed

<sup>1</sup> It is perhaps worth mentioning that William Cecil seems to have adhered to the principles of the balance of trade. In a paper headed «The Inconveniencies of enlargyng any power to bryng any more wyne into the realme», he maintains that «it is manifest that nothyng robbeth the realm of England, but whan moore merchandises is brought into the realme than is carryed furth», because the balance «must be paid with mony». «The remedy herof is by all pollycyes to abridg the use of such forrayn commodities as be not necessary for use» (Cunningham, *o. c.* *Modern Times*, pp. 70—71).

<sup>2</sup> Misselden, *Circle of Commerce*, pp. 116—117.

<sup>3</sup> Misselden, *o. c.*, p. 117.

<sup>4</sup> Misselden, *ibidem*.

by him thus: «Although a kingdom may be enriched by gifts received, or by purchase taken from some other nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to encrease our wealth and treasure is by foreign trade, wherein wee must ever observe this rule, to sell more to strangers yearly than wee consume of theirs in value. For suppose that when this kingdom is plentifully served with the cloth, lead, tinn, iron, fish and other native commodities, we doe yearly export the overplus to forraign countries to the value of twenty two hundred thousand pounds, by which means we are enabled beyond the seas to buy and bring in forraign wares for our use and consumptions, to the value of twenty hundred thousand pounds, by this order duly kept in our trading, we may rest assured that the kingdom shall be enriched yearly two hundred thousand pounds, which must be brought to us in so much treasure, because that part of our stock which is not returned to us in wares must necessarily be brought home in treasure.»<sup>1</sup>

In the closing chapter of his book, Mun, summing up the essence of his economic doctrine, gives us an almost pathetic confession of faith: «Let the merchants exchange be at a high rate, or at a low rate, or at the *par pro pari*,\* or put down altogether, let forraign princes enhance their coins, or debase their standards, and let his Majesty do the like, or keep them constant as they now stand; let forraign coins pass current here in all payments at higher rates than they are worth at the Mint, let the Statutes for employments by strangers stand in force or be repealed, let the meer exchanger do his worst, let princes oppress, lawyers extort, usurers bite, prodigals wast, and lastly let merchants carry out what money they shall have occasion to use in traffique. Yet all these actions can work no other effects in the course of trade than is declared in this discourse. For so much treasure only will be brought in or carried out of a commonwealth, as the forraign trade doth over or under ballance in value. And this must come to pass by a necessity beyond

<sup>1</sup> Mun, o c, pp 7—8

all resistance. So that all other courses (which tend not to this end) howsoever they may seem to force money into a kingdom for a time, yet are they (in the end) not only fruitless but also hurtful: they are like to violent floods which bear down their banks, and suddenly remain dry again for want of waters.<sup>1</sup>

The admirably lucid and concise manner in which Mun described the mechanism and the fundamental principles of the balance of trade, remained unsurpassed. Each generation of mercantile economists went anew to school to «the ingenious Mr. Mun» and tried to fit their ideas into the traditional formula, even after their point of view had actually undergone considerable changes. We have the evidence of Adam Smith that «the title of Mun's book, *England's Treasure in Foreign Trade*, became a fundamental maxim in the political economy, not of England only, but of all other commercial countries».<sup>2</sup> We need not in this place follow

<sup>1</sup> Mun, o. c., pp. 118—9. — Here it may be pointed out that Malynes, though passionately defending bullionist principles, was, at the same time, not unconscious of the role played by the balance of trade; he asserted namely: «The prince (being as it were the father of the family) ought to keep a certaine equality in the trade or trafficke betwixt his realme and other countries, not suffering an overballancing of forreine commodities with his home commodities, or in buying more then he selleth. For thereby his treasure and the wealth of the realme doth decrease, and as it were his expences become greater, or do surmount his incomes or revenues» (*A Treatise of the Canker*, pp. 2—3). The old and the new were thus in a curious way mixed in his ideas. He believed, apparently, that if only an end could have been made of exchange manipulations by irresponsible persons, the state of the balance of trade would be the ultimate efficient in the influx and efflux of gold and silver. A similar uncertainty of thought, characteristic in a time of transition, is to be found in the prominent Spanish economist, Geronimo Uztariz (*Wirminghaus, Zwei spanische Merkantilisten*, p. 56). And also the author of the *Britannia Languens*, though he approved of prohibitory measures, granted that «if a nation hath no gold or silver-mines within its own territory, there is no practicable way of bringing treasure into it (in times of peace) but by forreign trade» (*Britannia Languens, Early Engl. Tracts*, pp. 289—90).

<sup>2</sup> Adam Smith, o. c., I. p. 401.

the reiteration of the principles of the balance of trade to be found in the works of subsequent mercantilists, since we shall have in the course of this treatise plenty of opportunities to examine their exposition from different points of view. As a single example of the strange persistence of this theory's outward apparition, a passage, written as late as 1749, may be quoted: »In the exchange of commodities, if one nation pays the other a quantity of gold and silver over and above its property of other kinds, that is called a balance against the nation in favour of the other. And the whole science of gainful commerce consists in the bringing this single point to bear. Now there can be but one general method for putting it in practice; and that is, since gold and silver is the universal standard for making an estimate of the value, and regulating the price of the commodities or manufactures of both countries, to export larger quantities of our own and import less of theirs, so that what is wanting in the value of their merchandize, compared with ours, may be paid in gold and silver.»<sup>1</sup>

Two important problems, or, better, groups of problems, closely connected with the mechanism of the balance of trade, the fundamental principles of which have been set out above, are yet to be examined. The one refers to the scope of the balance of trade and the other to the criteria by which the state of it was to be ascertained.

As to scope, the balance of trade was, first, a question of general balance and particular balances; and, secondly, a question of a balance of trade (in the narrower sense of the term) and a balance of international indebtedness.

We shall first turn to the question of general balance and particular balances and examine what part each of them played in the mercantile theory of the balance of trade. We may at once put

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<sup>1</sup> Tucker, 'A Brief Essay, Introduction.

down as a matter self-evident that as soon as men began to recognize that the sum of particular bargains formed an organic whole and that money was brought in if the balance of trade with a particular country was favourable, the vision of the sum of all particular balances, i. e. of a general balance, must also have presented itself to the thoughtful observer.

Mun has stated the relation of the particular balances to the general balance with his usual ability: «As namely in some countrys we sell our commodities and bring away their wares, or part in mony; in other countreys we sell our goods and take their mony, because they have little or no wares that fits our turns: again in some places we have need of their commodities, but they have little use of ours: so they take our mony which we get in other countreys: And thus by a course of traffick — the particular members do accomodate each other, and all accomplish the whole body of the trade.»<sup>1</sup>

The economic principle that particular balances are only to be judged with a view to the whole circle of trade, was elsewhere illustrated by Mun with a fine analogy: «For if we only behold the actions of the husbandman in the seed-time when he casteth away much good corn into the ground, we will rather accompt him a mad man than a husbandman: but when we consider his labours in the harvest which is the end of his endeavours, we find the worth and plentiful encrease of his actions.»<sup>2</sup>

The same principles were propagated by other economists. Thus Child lays down a rule as follows: «A true measure of any particular trade, as to the profit or loss of the nation by it, cannot be taken by the consideration of such trade in itself singly; but as it stands in reference, and is subservient to the general trade of this kingdom.»<sup>3</sup> The practical application of this general rule appears from his assertion that «Silver and gold, coined or

<sup>1</sup> Mun, o. c., pp. 46—7.

<sup>2</sup> Mun, o. c., p. 27.

<sup>3</sup> Child, A New Discourse, pp. 169-70.

uncoined, — may in many cases be exported as much to national advantage as any other commodity.»<sup>1</sup> This assertion sounds paradoxical in the mouth of a mercantilist, but was, nevertheless, not incompatible with the true principles of the theory of the balance of trade (according to which there was nothing objectionable e. g. in the export of bullion by the East India Company if only for trade-purposes). Another economist, the author of »England's Great Happiness», makes a very similar assertion: »However, 'tis our great advantage to export money.»<sup>2</sup>

The common principle of mercantile writers, adhering to the theory of the balance of trade, that any gain or loss accruing from foreign trade was decided by the general balance alone, and not by particular balances, did not hinder, however, the greatest attention from being paid to the state of particular balances. Each trade was carefully scrutinized as to its advantage or disadvantage, the moral being: »If the trade was unprofitable, let it be suppressed; if not, let it be supported and countenanced by some public declaration.»<sup>3</sup> In the course of the discussion carried on about this matter, the Spanish and the Portuguese trades were commonly approved of, the net-balance of these trades consisting of bullion. On the other hand, the trade with East India and that with France caused especially animated controversy.

The great attention given to particular balances, appears very natural if it be considered that the state of the general balance of trade was nothing but all the balances with particular countries together. Any change for the better or the worse in particular lines of trade could not but directly react upon general balance. It was therefore no wonder that economists and politicians tried to ascertain »by what trades this kingdom gains, and by what trades it loses»<sup>4</sup>, as that was the way to encourage or discourage

<sup>1</sup> Palgrave's Dictionary, I. p. 277; Child.

<sup>2</sup> England's Great Happiness. Early Econ. Tracts, p. 259.

<sup>3</sup> Hewins, o. c., p. 62.

<sup>4</sup> Child, A New Discourse, p. 194.

particular branches of commercial activity with the attention fixed on the general balance of trade.

The extraordinary interest in particular balances was, nevertheless, open to one serious objection. That objection was very forcibly raised by D' Avenant in the following passage: »To enquire whether we get or lose by this or that branch of trade, is an endless and uncertain speculation; the only question of importance, and which indeed should employ the thoughts of considering men, is, in main do we get, or lose? — — We deal with one country to loss, but this is the cause of, or lets us into, a trade with another region by which we get. — — It is hard to trace all the circuits of trade, to find its hidden recesses, to discover its original springs and motions, and to shew what mutual dependance all traffics have one upon the other: And yet, whoever will categorically pronounce, that we get or lose by any business, must know all this, and, besides, have a very deep insight into many other things.»<sup>1</sup>

This contemptuous utterance of D'Avenant was not without foundation: Much of the controversial argumentation carried on by the bulk of mercantile writers on the topic of particular balances, gives, indeed, the impression of an »endless and uncertain speculation», for as we shall see when we come to speak of the criteria of the balance of trade, there was no certain method by which the outcome of particular trades was to be ascertained. And it might have paid better to follow D'Avenant's advice of letting particular balances find their own course, all possible care being taken of the general state of trade.

But even if it be true, as it certainly is, that mercantile writers cannot be wholly exonerated from the charge of unfruitful and directly misleading calculations as regards particular trades, we must not forget that in the circumstances of the seventeenth century a specific care of particular balances was surely much more justifi-

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<sup>1</sup> D' Avenant, Discourses on the Public Revenues. Works, I. pp. 386, 388.

able than it would have been at a later time. In the age of early capitalism, the modern mechanism of foreign exchange was not developed; communication between one country and another was difficult, even in Europe. The countries were therefore in a much higher degree dependent on a certain reciprocity of trade transactions between separate countries than has been the rule in modern times when the development of finance, credit and telegraph as well as of the whole system of communication has brought countries close together, so that now the particular balances are quickly and nicely adjusted to the general state of trade. In the age of early capitalism the rule to be the customer of one's own customers lest buying elsewhere should make the latter unable or unwilling to carry on a one-sided trade, was certainly obvious enough.<sup>1</sup> This rule was set down and explained by the British Merchant as follows: 'If the Bill of Commerce should pass, should we not consume more of the French wines? And should we not abate in proportion of those of Portugal and Italy? And would not those countries then prohibit our goods, to prevent the payment of the ballance? Again, would not this Treaty of Commerce, if made effectual, increase our consumption of French wrought silk and paper? And should we not consume so much the less of those of Italy and Holland? And lastly, would not our consumption of French linen be increas'd, and that of Holland, Germany, and Flanders be abated? And why should we imagine that these countries will not abate of their consumption of our manufactures? or that they will not retaliate upon us by prohibitions and high duties, to make the account of exports and imports even, and that they may not pay us any ballance? It is a very dangerous

<sup>1</sup> We may note the interesting fact, that in many countries the breakdown of financial, credit and communication system during and after the last war, put those countries partially back into an age of early capitalism so that they were compelled to pay great attention to the state of particular balances.

thing to provoke the nations that pay us money, and which have it in their power to pay us none.»<sup>1</sup>

The great attention given to particular balances is further explained, if not justified, by the fact that political aversions or friendships played a great role in judging the character of particular balances. That was especially the case with regard to the trade with France. Without proceeding to give examples of this mode of judgment, we may refer to the testimony of a later economist: »But party-prejudice running high against the French king's ambitious designs — — and this balance being considered abstractedly, without any view to our general trade; an inconsiderate zeal hurried our ancestors into the scheme of distressing the French king by prohibitions and high customs on his goods, not considering the hurt we should thereby do ourselves.»<sup>2</sup>

Turning now to consider the relation of the balance of trade to the balance of international indebtedness, we may at once note down the fact that mercantile writers of the seventeenth century never directly speak of anything but a balance of trade. The question is: Was the existence of a balance of international indebtedness wholly overlooked by mercantilists? Or was

<sup>1</sup> *British Merchant*, II. pp. 3—4. — Cf. also an assertion of Joseph Massie: »But French and Canary wines, were the fashionable wines in England at that time [before 1688], and a very unlucky fashion it was for the trade of this nation; — — for the people of Old Spain and Portugal were not able to pay money for all the English commodities they wanted; and as England then paid three hundred thousand pounds a year for French and Canary wines, she not only lost that sum of money annually, but the sale of woollen manufactures, etc. in Spain and Portugal, to the amount of three hundred thousand pounds a year. So that upon the whole, this nation then lost six hundred thousand pounds yearly, by drinking the wines of France and the Canary Islands, instead of drinking the wines of Old Spain and Portugal» (*Ways and Means for Raising the Extraordinary Supplies*, p. 27).

<sup>2</sup> *An Essay on the Causes of the Decline of the Foreign Trade*, pp. 131—2.

this conception, perhaps, implied, in the very term «the balance of trade»?

Heyking has expounded an interesting theory of the early relation of these two conceptions: So soon as money began to play a more important part in trade and the attention of governments was turned to attracting precious metals into the country, attempts were made at periodical estimation of changes taking place in the amount of gold and silver in the country. Strict calculations were made, e. g. in Spain, of the quantities of gold and silver brought home from the colonies. Further, figures of ransoms for distinguished prisoners, of all kind of money tributes, subsidies, expenses for armies and for travelling abroad were compiled and calculated. But with the greater expansion of commerce and traffic, the disbursements of the precious metals arising from these various causes, were bound to lose in importance in comparison with money disbursements arising from import and export of commodities. The attention of statesmen came therefore when reflecting over the movements of the precious metals more and more to be directed to phenomena of trade. Thus the idea of a balance of gold and silver narrowed down and only a balance of trade, i. e. a balance accruing from export and import of commodities, was generally recognized.<sup>1</sup>

To this explanation the express reservation must be made that mercantilists never actually lost from sight the vision of a broader balance than a balance of trade. Of that we have full evidence in their writings. Thus the following passage of Mun's is very clear on this point: «If it happen that his Majesty doth make over any great sums of money by exchange to maintain a forraign war, where we do not feed and clothe the souldiers, and provide the armies, we must deduct all this charge out of our exportations or add it to our importations; for this expence doth either carry out or hinder the coming in of so much treasure. And here we must remember the great collections of money which are supposed

<sup>1</sup> Heyking, *Zur Geschichte der Handelsbilanztheorie*, pp. 19—20.

to be made throughout the realm yearly from our recusants by priests and jesuits, who secretly convey the same unto their colleges, cloysters and nunneries beyond the seas, from whence it never returns to us again in any kind.»<sup>1</sup> Further Mun enumerates expenses of travellers, the gifts to ambassadors and strangers, interest of money, insurance upon English goods and their lives, and »some other petty things which seem to have reference to this ballance». <sup>2</sup> Another early economist, Robinson, writes as follows: »Though greater quantities of forrain wares doe be brought in, then we send out of native, yet it doth not follow necessarily that our gold and silver must goe to pay for them, in regard that Italian, Spaniard, French, and Dutch doe many times freight English ships, whereby good somes of money are yearly raised by our nation abroad, and may serve to pay for the advance of forrain commodities that wee bring in, at least for such a proportion as this freight money imports, which is to a considerable vallew.»<sup>3</sup> Robinson, mentions also expenses of travellers and ambassadors. <sup>4</sup>

Similar explanations to those referred to above, are to be found in numerous other seventeenth century writers, such as Misesden, Child, Petty, the author of the *Britannia Linguens*, Locke, D'Avenant, Pollexfen, etc.

It is then clear enough that while mercantilists continually spoke only of a balance of trade, that was not the result of ignorance. It was not that, that they overlooked the existence of a balance of indebtedness, but that they usually did not regard this balance worth special attention. It was spoken of only incidentally and sometimes directly described as unimportant. Thus Mun once asserted: »Although a kingdom may be enriched by gifts received, or by purchase taken from some other nations, yet these are things uncertain and of small consideration when they happen. The

<sup>1</sup> Mun, o. c., p. 116.

<sup>2</sup> Mun, o. c., p. 117.

<sup>3</sup> Robinson, *England's Safety*, p. 50.

<sup>4</sup> Robinson, o. c., p. 31.

ordinary means therefore to encrease our wealth and treasure is by forraign trade »<sup>1</sup> And the author of the *Britannia Linguens* said »As a nation may grow rich and populous, and consequently strong by forreign trade, so may a nation grow poor and dispeopled, and consequently weak by forreign trade; nor is there any possible or practicable way for the treasure of a nation in peace, to be exhausted and exported into another nation to any considerable and sensible degree, but by forreign trade »<sup>2</sup> Locke advanced a similar opinion »We have seen how riches and money are got, kept or lost, in any country; and that is by consuming less of foreign commodities, than what by commodities or labour, is paid for This is in the ordinary course of things but where great armies and alliances are to be maintamed abroad, by supplies sent out of any country, there often, by a shorter and more sensible way, the treasure is diminished But this, since the holy war, or at least since the improvement of navigation and trade, seldom happening to England, whose princes have found the enlarging their power by sea, and the securing our navigation and trade, more the interest of this kingdom than wars, or conquests, on the continent Expences in arms beyond sea, have had little influence on our riches or poverty.»<sup>3</sup>

Material as well as psychological grounds may be brought forward to make clear the mercantile attitude. For the first, international payments of gold and silver above and beyond those accruing from the balance of trade were relatively unimportant. They played an insignificant role not only in comparison with an earlier time as pointed out by Heyking above, but even more in comparison with later times At the present day, money disbursements accruing from export and import of commodities form a much smaller part of the balance of international indebtedness than was the case two or three hundred years ago On that account

<sup>1</sup> Mun, o c., p 7

<sup>2</sup> *Britannia Linguens* Early Engl Tracts, p 371

<sup>3</sup> Locke, *Considerations* Essays, p 571

«during the seventeenth century imports and exports were a fairly good test of international indebtedness».<sup>1</sup> And what was fairly good, appeared certainly as good enough, to the mercantile writers. For, as will be sufficiently demonstrated in the course of this study, mercantilists, whose writings were usually based on practical considerations, showed little interest in theoretical niceties.

Secondly, money disbursements, not accruing from the balance of trade, were, as Mun said, «things uncertain», for which reason there was little chance of creating machinery for their effective control, while, on the other hand, the balance of trade was automatically regulated by directing and improving the commercial activity of the nation. Here also, consequently, the practical sense of mercantilists played its part and tended to turn attention exclusively to the narrower field of international payments, namely that of the balance of trade

Lastly, a generalization of the term «balance of trade» so that it included also «the balance of international indebtedness», was, presumably, based on current practice. At least we may point out that even at a time, when the material difference between the balance of trade and the balance of international indebtedness has grown more substantial, the term «balance of trade» is occasionally given a broader sense than that which it usually connotes. Thus we may quote from so eminent an economist as Viscount Goschen a passage running as follows: «It is an error often committed to imagine these [international] debts to be incurred simply by the importation of foreign commodities, and to look on the balance of trade as a mere question of import and export, as being the excess of the one over the other. It is necessary to look closer into the transactions between two countries before an idea can be formed of the position of their mutual indebtedness.»<sup>2</sup> And in another place, the same writer speaks of the «balance of trade,

<sup>1</sup> Hewins, English Early Econ. History. Palgrave's Dictionary, I., p. 724.

<sup>2</sup> Goschen, Foreign Exchanges, p. 11.

in its simplest sense», thus distinguishing it from the balance of international indebtedness (which would be, the balance of trade, in its broader sense).<sup>1</sup>

Considering the significance that was attributed to the balance of trade, it was only natural that mercantilists tried to state which way the general balance or the balance with a particular country actually was running. This point was expressed by Mun as follows: «Now, that we have sufficiently proved the ballance of our forraign trade to be the true rule of our treasure; it resteth that we shew by whom and in what manner the said ballance may be drawn up at all times.»<sup>2</sup>

Mun appealed in ascertaining the state of the balance of trade to custom house books. These books had been before him recommended for the same purpose by Malynes and Misselden. In 1603 the former had already asserted that «this overballancing is knowne by the increase of the custome of the goods inwards, and the decrease of the custome of the goods outwards.»<sup>3</sup> Misselden, on the other hand, did not apply to the custom house books without qualification: «There are some things of speciall consideration, which cannot be discerned by the customes. — — — In our exportations, wee are to reckon our forraine commodities imported, and not spent in the kingdom, but exported againe into forrain trade, as the native commodities of the kingdome.»<sup>4</sup> The fishing trade and smuggling were not to be discerned, nor «freight and merchants gaine».<sup>5</sup> And lastly «in the importation, the customes doe not lead a man so neere to the value of the goods, as in the exportation: so that thereby you

<sup>1</sup> Goschen, o. c., p. 96. The following sentence of another modern economist may also be quoted: «Consequently, although the relative indebtedness, or balance of trade between two countries, does exercise a potent influence over the exchanges — —» (Spalding, Foreign Exchange, p. 9).

<sup>2</sup> Mun, o. c., p. 113.

<sup>3</sup> Malynes, England's View, p. 148.

<sup>4</sup> Misselden, Circle of Commerce, p. 124.

<sup>5</sup> Misselden, *ibidem*.

can neither know, what the goods imported cost with charges abroad, nor what the same are worth at home». <sup>1</sup>

Returning now to Mun's appeal to the custom house books, we find it very much the same as Misselden's had been. He too, limits the validity of the custom house books considerably: «First therefore, concerning our exportations, when we have valued their first cost, we must add twenty-five per cent. thereunto for the charges here, for freight of ships, ensurance of the adventure, and the merchants gains.» <sup>2</sup> Moreover, the fishing trade and the money which are carried out in trade by license from his Majesty, are to be reckoned. <sup>3</sup> «Secondly, for our importations of forraign wares, the custome-books serve onely to direct us concerning the quantity, for we must not value them as they are rated here, but as they cost us with all charges laden into our ships beyond the seas. — — Wherefore our said importations ought to be valued at twenty-five per cent. less than they are rated to be worth here.» <sup>4</sup> Lastly, Mun points to the various categories, included in the balance of international indebtedness, as referred to above. <sup>5</sup>

The modifications which Misselden as well as Mun made when employing custom house books as criteria of the balance of trade (which they understood as a balance of international indebtedness), did not hinder them from resorting to these books, for, as Mun explicitly asserted, «although (it is true) they «the officers of his Majesties customes» cannot exactly set down the cost and charges of other men's goods bought here or beyond the seas; yet nevertheless, if they ground themselves upon the book of rates, they shall be able to make such an estimate as may well satisfie this enquiry: for it is not expected that such an account can possibly be drawn up to a just ballance, it will suffice onely that the difference be not over great». <sup>6</sup>

<sup>1</sup> Misselden, o. c., p. 125.

<sup>2</sup> Mun, o. c., pp. 113—4.

<sup>3</sup> Mun, o. c., p. 114.

<sup>4</sup> Mun, ibidem

<sup>5</sup> Cf. above, pp. 31—2

<sup>6</sup> Mun, o. c., p. 113.

Successive economists frequently resorted to custom house books, with or without express reservation, as a criterion of the balance of trade. When we consider the attitude of Misselden and Mun as well as the fact that a balance of international indebtedness was generally recognized, we may take for granted that even in cases, where it was not directly pointed out, this criterion was used in spite of the fact that its defectiveness was acknowledged. The discussion carried on on this point afforded little of interest, for nothing positively new was brought forward.

Child seems to have been the first wholly to reject it as a criterion. He pointed out »the difficulty and impossibility of taking a true account, as well of the quantity as of the value of commodities exported and imported. The general rule for this has been the custom-house-books; but that they cannot be in any measure certain, will easily be granted». <sup>1</sup> And at the end of the century, Barbon categorically asserted that »there can be no finding out the balance of trade by the custom-house-books». <sup>2</sup>

Besides the custom house books, there was another criterion often applied. That were the rates of exchange. In one sense, this criterion may be said to have originated simultaneously with the theory of the balance of trade. For as we have seen, the balance theory was founded on the view that money was a commodity as all other commodities and that the rate of exchange did not follow the declaration of the prince but was subject to the general economic law of supply and demand. In other words, the rate of exchange appeared as a natural criterion of plenty or scarcity of gold and silver. »It is not the rate of exchanges», Misselden said, »but the value of monies, here lowe, elsewhere high, which cause their exportation: nor doe the exchanges, but the plenty or scarcity of monies cause their values». <sup>3</sup> And in other connection he asserted that »the ballance of trade» was the true

<sup>1</sup> Child, *A New Discourse*, p. 165.

<sup>2</sup> Barbon, *Discourse Concerning Coining*, p. 38.

<sup>3</sup> Misselden, *Free Trade*, p. 104.

»par of exchange». <sup>1</sup> Mun advanced a similar view: »The prizes of the exchanges doe rise and fall according to the plentie or scarcitie of money, which is to be taken up or delivered out.«<sup>2</sup> Otherwhere he asserted: »These exchanges — — are not contracted at the equal value of the moneys, according to their respective weights and fineness: First, because he that delivereth his money doth respect the venture of the debt, and the time of forbearance; but that which causeth an under or overvaluing of moneys by exchange, is the plenty or scarcity thereof in those places where the exchanges are made.»<sup>3</sup> And a little later: »As plenty or scarcity of mony do make the price of the exchange high or low, so the over or under ballance of our trade doth effectually cause the plenty or scarcity of mony.«<sup>4</sup>

But as to the rates of exchange also as a criterion of the balance of trade, express reservations were made by many seventeenth century economists. Petty recognized how narrow the limits were within which the rates of exchange fluctuated: »As for the natural measures of exchange, I say, that in times of peace, the greatest exchange can be but the labour of carrying the money in specie, but where are hazards emergent uses for money more in one place then another, &c. or opinions of these true or false, the exchange will be governed by them.«<sup>5</sup> Child was very explicit in his

<sup>1</sup> Misselden, Circle of Commerce, p. 98.

<sup>2</sup> Mun, A Discourse, p. 43.

<sup>3</sup> Mun, England's Treasure, p. 53.

<sup>4</sup> Mun, o. c., p. 54.

<sup>5</sup> Petty, A Treatise of Taxes. Writings, I. p. 48. Petty, however, did not bring forward his observation directly in connection with the question of employing the course of exchange as the criterion of the balance of trade. That conclusion was later drawn from the same premisses by Postlethwayt, in the following passage: »If the course of exchange between this country and any other be against us, it may be allowed to be almost a certain indication that the ballance of trade is against us; but it cannot be allowed to be a certain indication of the quantum of the ballance, because — — whenever the course of exchange rises much above the value of the risques and charges of exporting gold and silver, such quantities of these two metals

view. Allowing that there was a great deal of truth in the notion »that the way to know whether the nation gets or loses in the general by its foreign trade, is to take an inspection into the course of the exchange», he pointed out, on the other hand, that »because this is likewise subject to vary on many accidents or emergencies of state and war, &c and, because there is no settled course of exchange; but to and from France, Holland, Flanders, Hambrough, Venice, Leghorn, and Genoa, and that there are many other great and eminent trades besides what are driven to those countries, this cannot afford a true and satisfactory solution to the present question».<sup>1</sup>

Locke attributed to this criterion a much greater practical value than Child, though he was by no means blind to its defects. »I think the over-balance of trade is that, which chiefly raises the exchange in any country, and that plenty of money, in any country, does it only for so much of the money as is transferred, either to be lett out to use, or to be spent there — — I suppose it is the present balance of trade, on which the exchange immediately and chiefly depends, unless some accident shall make a great deal of money be remitted at the same time from one place to another, which will for that time raise the exchange all one as an over-balance of trade; and indeed, when examined, is generally very little different from it»<sup>2</sup>. In another place he asserted »The reason of high exchange, is the buying much commodities in any foreign country, beyond the value of what that country takes of ours»<sup>3</sup>. Lastly we may quote a passage of Barbon in which the question is dealt with in the same spirit as Child had shown before. »Some are of the opinion, that the way to find out the balance of trade, is by the foreign exchange — — This seems to be the nearest way of guessing of the balance of the trade

will be exported as must soon bring the exchange back to it's natural course» (The Universal Dictionary, I p 188)

<sup>1</sup> Child, A New Discourse, pp 174—5

<sup>2</sup> Locke, Considerations Essays, p 593

<sup>3</sup> Locke, Further Considerations. Essays, p 659

of a nation; but this is altogether as uncertain. For exchanges rise and fall every week, and at some particular times in the year run high against a nation, and at other times run as high on the contrary. As against a vintage, a great mart, or some publick sale, the exchange may run higher to Bourdeaux, Frankfurt, or Holland, upon an East India sale: And at other times the exchange may have run to the same places as much on the contrary. — Therefore there can be no account of the balance of trade by foreign exchanges.<sup>1</sup>

The two criteria of the balance of trade, referred to above, custom house books and the course of exchange, have been pointed out by later economists as the only criteria to which mercantilists used to appeal.<sup>2</sup> That is, however, not quite accurate, for besides these criteria there was not seldom an appeal to a third category of phenomena from which the state of the balance of trade might be discerned, namely the general condition of trade. That was e.g. Child's attitude, after having disqualified the other two criteria, as we have seen. »How shall we then come to be resolved of the matter in question», Child asks and answers the question as follows: »The best and most certain discovery, to my apprehension, is to be made from the encrease and diminution of our trade and shipping in general; for, if our trade and shipping diminish, whatever profit particular men may make, the nation undoubtedly loses; and on the contrary, if our trade and shipping encrease, how small or low soever the profits are to private men, it is an infallible indication that the nation in general thrives.»<sup>3</sup> The author of *England's Great Happiness* pursues the same line of argumentation: »If we have great magazines for war, and multitudes of brave ships; if we have a Mint employ'd with more gold and silver than in a considerable time they can well coin; — — if our good lands be made much better, and our

<sup>1</sup> Barbon, *Discourse Concerning Coining*, pp. 39—40.

<sup>2</sup> Adam Smith, *Wealth of Nations*, I. p. 439.

<sup>3</sup> Child, *A New Discourse*, pp. 175—6.

bad have a sixfold improvement; if our houses be built like palaces, over what they were in the last age, and abound with plenty of costly furniture, and rich jewels be very common, — — if we have most part of the trade of the world, and our cities are perhaps the greatest magazines thereof, — — if we have an universal peace, and our king in such renown that he is courted by all his neighbours, and these only the marks of poverty, then I have been under a great mistake.<sup>1</sup>

D'Avenant, after having pointed out the impossibility of finding out the state of particular balances, will have the general balance recognized thus: «A nation that by its whole dealing gets in the general balance, visibly increases in strength and power, as the Northern Kingdoms have done since the war, and as England and Holland did before it, and a country that by its dealings loses at the foot of the account, does visibly grow weak and decline, as Spain has done for these last 60 years.»<sup>2</sup>

Those were the criteria applied for ascertaining the state of the balance of trade. Now, what is to be said of their practical value? Shortly this. As to the custom house books and the course of exchange, the criticism offered by contemporary economists, must, as a whole, be said to go to the point. With regard to these criteria what the *British Merchant* said of one of them holds for both: «Custom-house accounts tell us the truth, but not the whole truth»<sup>3</sup>. This sort of half-truth was, indeed, worse than nothing, being often badly misleading. As to the third test, the general state of trade, the suggestion was, considered from the mercantile point of view, a very natural one, as according to the received opinion favourable balance of trade was a condition *sine qua non* for prosperous economic life. Its truth depends, however, exclusively upon the validity of such a notion

<sup>1</sup> England's Great Happiness Early Econ Tracts, pp 271—2

<sup>2</sup> D'Avenant, Discourses on the Public Revenues Works, I p 386

<sup>3</sup> The British Merchant, II p 226

And that remains yet to be seen: But even if we *ad interim* should suppose such a direct relation between the balance of trade and economic life as a whole to have existed, the question arises, whether the good or bad consequences arising from fluctuations in the balance of trade, always were contemporary phenomena; in other words, whether the cause and the effect necessarily always coincide in time? Further, it may be justly maintained, that this criterion was much too vague, too subject to individual differences of judgment, to have been of any considerable practical value. All things considered we cannot but agree with Barbon when he says: »There is nothing so difficult, as to find out the balance of trade in any nation; or to know whether there ever was, or can be such a thing as the making up the balance of trade betwixt one nation and another; or to prove, if it could be found out, that there is any thing got or lost by the balances;»<sup>1</sup> or with the statement of Adam Smith: »There is no certain criterion by which we can determine on which side what is called the balance between any two countries lies, or which of them exports to the greatest value.»<sup>2</sup>

The conclusion we have thus arrived at becomes the more evident, if the practical computations of mercantile writers as to the state of the balance of trade are taken into consideration. We have already pointed out that controversies concerning particular balances were, in general, an »endless and uncertain speculation». That was especially the case when partisan or individual interests came to play a greater role, as was e. g. the case with the document prepared in 1674 by some leading London merchants, in which were put forward statistical data for the assertion that England was a loser by nearly a million a year, in her trade with France; a document which was frequently appealed to in the protracted discussion as to the merits of the French trade. The case was similar with the controversy between Mercator and the British Merchant.

<sup>1</sup> Barbon, Discourse Concerning Coining, p. 36.

<sup>2</sup> Adam Smith, Wealth of Nations, I. p. 439.

. But computations based upon the general balance of trade were equally unreliable. This appears best from the fact that at the same time as Fortrey, the author of the *Britannia Languens* and Roger Coke were speaking of the declining condition of England's trade, the author of England's Great Happiness and D'Avenant entertained a very different opinion of the state of trade. And when in the following century e.g. Hutcheson, Gee and the author of *An Essay on the Causes of the Decline of the Foreign Trade* regarded trade as being in a ruined condition, other economists, as Daniel De Foe and Erasmus Phillips asserted that the wealth of England had been steadily increasing.

Later critics of the theory of the balance of trade found excellent matter for derision in these mercantile miscalculations. They were, especially, ridiculed by David Hume and Adam Smith. Tucker's view was similar.<sup>1</sup> The attitude of the mercantile writers may, however, be, to a certain extent, defended by pointing to the fact that mercantilists themselves, as we have seen above, were not blind to the defectiveness of the criteria applied, though they were usually inclined to accept one or another

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<sup>1</sup> Tucker, *Cui Bono?*, pp. 73—5. 'For the English have a most unaccountable propensity towards the gloomy and the dismal in their prospects concerning trade. And nothing seems to please them better, as the celebrated Lord Chesterfield used to say, than gravely to be told, that they are ruined and undone. Therefore his friend Lord Bolingbroke grounded all his patriotic dissertations on this very basis — An author of some repute, one Joshua Gee, was so possessed with this desponding notion, that he undertook to demonstrate by figures, and tables of accounts, that the balances of trade were almost everywhere prodigiously against us. So that according to this comfortable demonstration, there would not have remained one shilling in Great-Britain for these 60 years last past. Yet Sir, we have spent and lavished away, since that period, chiefly in unnecessary and unprofitable wars, upwards of 150,000,000 £ sterling — a sure proof that he was miserably deceived in his calculations, tho' a most melancholly reflection on our own prudence.'

of the proposed criteria as giving some rude index of the balance of trade. We may, moreover, call attention to the fact that this question of criteria never played any considerable part in the writings of the more important mercantile economists. The primary question for them was, how to improve the balance of trade, and not, how to ascertain the state of the balance of trade. That was expressly stated by Child: "I answer, that though the study of the ballance of trade, in this last mentioned respect [i. e. as to the state of the balance of trade], be a study very ingenious and commendable; yet in my poor opinion, the enquiry, whether we get or lose, does not so much deserve our greatest pains and care, as how we may be sure to get; the former being of no use, but in order to the latter."<sup>1</sup>

<sup>1</sup> Child, A New Discourse, p. 189.

### III. Gold and Silver: Stores of Value.

The questions dealt with in the previous chapter have been grouped under the common name of the »Mechanism of the Balance of Trade«. We have now to turn to the other, equally organic part of the theory which was called above the »Importance of the Favourable Balance of Trade«. We have to seek answer to the question: Why did mercantilists consider the favourable balance of trade so highly important? We shall try to clear up the details of the question as carefully and satisfactorily as possible. But before attempting this, it will be convenient to consider generally its central phenomenon by enquiring preliminarily, what actual services were rendered to early capitalist society by the precious metals, and what conceptions of those services were held by economic writers in the period. To this we shall devote the present and the following chapter.

Three distinct economic functions in society are performed by gold and silver. They are used for industrial and ornamental purposes, as stores of value, and as the standards of money. The two first-named functions are closely related to each other being also historically older than the third.<sup>1</sup> For real understanding of the economic role of the precious metals, a clear

<sup>1</sup> Jevons, *Money*, p. 16: »Historically speaking, such a generally esteemed substance as gold seems to have served, firstly, as a commodity valuable for ornamental purposes; secondly, as stored wealth; thirdly, as a medium of exchange; and lastly, as a measure of value.»

discrimination between the two first-named functions and the third is highly necessary. When we speak of money in its strict economic sense, we have no regard to its intrinsic nature, to the material it is made of, but only to the specific functions it performs, whether by law or by convention, as a medium of exchange and a measure of value. When we, on the other hand, speak of gold and silver as used for industrial purposes or as stores of value, we are referring to functions belonging to these metals as commodities, and it is of no consequence whether they are in the form of bullion, coin, or ornament.

The fact that one and the same substance may be used in different ways naturally leads those different applications to be easily confused in thought. Such a danger of confusion was particularly great in the period of early capitalism, when the state of economic thinking was relatively undeveloped and the specific characteristics of money were more closely connected with gold and silver, than has been the case since, because these metals alone were employed as the standards of money, paper currency having not yet been introduced. It will also appear from many of the passages referred to below, that mercantile writers did not manage to avoid confusion: «Gold and silver» and «money» were generally used as synonymous terms. It lies with us to interpret in every particular case the true sense given to these terms and to refer each to its proper place among the functions of gold and silver.

It should however not be overlooked that even in seventeenth century literature there was some tendency towards differentiated use of such terms as «money» and «gold and silver». Thus Vaughan speaks of «money and the materials thereof».<sup>1</sup> Petty is remarkably consistent in discriminating between «gold and silver», on the one hand, and «money» or «coined money», on the other. In Locke a passage runs as follows: «That money differs from uncoined silver only in this, that the quantity of silver in each piece of money, is ascertained by the stamp it bears: which

<sup>1</sup> Vaughan, o. c., p. 140.

is there to be a publick voucher of its weight and fineness »<sup>1</sup> And in Barbon we find the two conceptions even theoretically distinguished in the following passage »Some men have so great an esteem for gold and silver, that they believe they have an intrinsic value in themselves, and cast up the value of every thing by them The reason of the mistake, is, because money being made of gold and silver, they do not distinguish betwixt mony, and gold and silver Mony hath a certain value, because of the law, but the value of gold and silver are uncertain, & varies their price; as much as copper, lead, or other metals »<sup>2</sup> It should be observed, however, that Barbon draws the line of demarcation, not between money and its standard, but between bullion and money as coins.<sup>3</sup> A theory clearly distinguishing between the abstract nature of money and gold and silver as physical substances, seems to have been produced first by Harris, more than half a century later, in a passage running as follows: »Money as such, though very useful and necessary in all sorts of traffic, yet scarce falls within the idea of riches (Money is here considered in the abstract, but as it is reducible into bullion, plate, &c. in that sense it is wealth like other commodities) »<sup>4</sup>

<sup>1</sup> Locke, *Further Considerations* Essays, p 661

<sup>2</sup> Barbon, *A Discourse of Trade*, p 18

<sup>3</sup> It may be of interest to note that some decades later Franklin brought forward a similar view »In order to make a true estimate of the value of money, we must distinguish between money as it is bullion, which is merchandize, and as by being coin'd it is made a currency For its value as a merchandize, and its value as a currency, are two distinct things, and each may possibly rise and fall in some degree independent of the others (*A Modest Enquiry* Writings, II p 149)

<sup>4</sup> Harris, *An Essay upon Money*, I p 83 A few years later Steuart laid down the same principles as follows »The terms gold and silver, money of account, coin, bullion, and price, are often understood, and made use of as synonymous, although no things can be more different The terms gold and silver should convey to us no other idea than that of pure physical substances That of money of account represents an invariable scale or measuring value » (*Inquiry*, II. p 46)

Having thus distinguished between the different functions gold and silver perform in society, we may now proceed further and examine in what relation each of these functions stood to the theory of the balance of trade. First we shall consider the employing of gold and silver for industrial purposes and for storing of value, and then their use as the standards of money.

The industrial application of the precious metals may be briefly dismissed, as we find in the mercantile literature of the seventeenth century practically no direct reference to it. Generally speaking, this use of the precious metals is only mentioned when there is some connection with the other functions of money; i. e. with their use as stores of value or the standards of money. This indifference to the industrial use of gold and silver has its natural explanation in the fact that, in industry, gold and silver were mostly used for ornamental purposes. But mercantilists were not, as a rule, seeking an answer to the question how human wants, say the desire for luxury, were to be satisfied, but solely to the question how the ends of political safety and economic expansion were best to be secured. To this mental disposition, characteristic of the mercantile age as a whole, we shall return later; for the moment it makes clear why the application of gold and silver to industrial purposes does not appear as one of the motives for the general chase after gold and silver.

When we turn from the use of gold and silver for industrial purposes to their employment for storing value, we approach a problem that actually did play an exceedingly important part in the theory of the balance of trade. Mun e. g. emphasizes thus the importance of such an application of the precious metals: »Those princes which do not providently lay up treasure, or do immoderately consume when they have it, will sodainly come to want and misery.»<sup>1</sup> What the writer meant by laying up a state treasure, becomes quite evident when he some pages later points out that states being not able to amass much treasure, may in-

<sup>1</sup> Mun, o. c., p. 90.

stead of it take care to provide the country with ships of war, forts, granaries, colonels, captains, soldiers, commanders, mariners, gunpowder, brimstone, saltpeter, shot, ordnance, musquets, swords, pikes, armours, horses and many other such like provisions fitting war, and then continues as follows: «Thus we have seen that a small state may lay up a great wealth in necessary provisions, which are princes jewels, no less precious than their treasure, for in time of need they are ready, and cannot otherwise be had (in some places) on the suddain, whereby a state may be lost, whilst munition is in providing; so that we may account that prince as poor who can have no wares to buy at his need, as he that hath no money to buy wares; for although treasure is said to be the sinews of the war, yet this is so because it doth provide, unite and move the power of men, victuals, and munition where and when the cause doth require; but if these things be wanting in due time, what shall we then do with our mony?»<sup>2</sup>

Thus, treasure represented for Mun a kind of national reserve stock to be used in cases of emergency. As such, it was no economic category strictly separated from other economic groups, for not only gold and silver, but all kinds of necessary provisions of war could be hoarded as stores of value. The only difference was that a hoard of gold and silver was preferable as being most conveniently laid up and preserved. It is well to remember, however, that a stock of gold and silver was preferable only provided that in time of need necessary provisions of war actually were to be purchased; for if these things be wanting in due time, what shall we then do with our mony? Treasure was thus no end in itself, but simply a means to further ends.

The same current of thought as that represented by Mun, is to be found generally in the economic literature of the seventeenth century. Indeed, already in the seventeenth century Hales and Cecil had given expression to the same point of view. The former wrote: «I saie; his Maiestie hathe most losse, by this

<sup>2</sup> Mun, o. c., pp. 94—5.

common dearthe, of all other; and not only losse, but daunger to the realme and all his subiectes, if his grace should wante treasure to purchase the sayde habyliments and necessities for warre, or to fynde soldiers in time of nede;<sup>1</sup> Cecil asserted: «Without having of masts, boords, cables, cordage, pitch, tarr, copar out of Estland, all Spayn is not hable to mak a navy redy to carry the meanest army that can be imagined, and if his money brought out of the Indies shold not tempt the Hanzes to bryng hym these provisions, Spayn wold not offer to make war by sea with England.»<sup>2</sup> Roberts describes the importance of gold and silver thus: «First it must be considered and granted, that silver and gold is not growing in every region, and therefore as things in themselves scarce; and by all princes sought after, may be accounted a forraigne commodity, and the rather, for that the same carrieth with it, the preheminance, and predominancy over all other commodities, whatsoever the worldly rich doe possesse, and therefore by reason of the excellency, power, vertue, generall use, and need of it; when once it entereth into some countries and kingdomes; the princes thereof forbid the exportation.»<sup>3</sup> And in another place the same writer says: «For that which produceth riches, doth consequently also beget strength and safety, so farre forth as treasure is accounted the principal nerve and sinnew of war, either offensive, or defensive.»<sup>4</sup>

In Vaughan we find an extraordinarily instructive passage: «Now all the common-wealths of the world are grown to such a depravation, that not only the exchange of necessities, for which money was first invented, but all things else are valued by money, the services and duties of the common-wealth, the virtue and the lives of the citizens; so that in the common opinions, that state, that abounds in money, hath courage, hath men, and all other instruments to defend it self and offend others, if it have wisdom how to make use of it: and upon this ground it was said, during

<sup>1</sup> Hales, o. c., p. 35.

<sup>2</sup> Cunningham, o. c. *Modern Times*, p. 62, note 1.

<sup>3</sup> Roberts, *The Treasure of Traffike*. *Early Engl. Tracts*, p. 67.

<sup>4</sup> Roberts, o. c., p. 111.

the time of the late wars in France, that that side that had the last crown to spend must be infallibly victorious. And it seems that in the Low-Countries, on both sides they are of the same opinion. — Hence it is that in the modern forms of common-wealths there is no proportion, no mediocrity of money, but all do strive to abound with it, without any stint. And hence it is that rarity is almost the sole inconvenience in matter of money.<sup>1</sup>

According to Hobbes, gold and silver «have the privilege to make common-wealths move, and stretch out their armes, when need is, into forraign countries».<sup>2</sup> The author of the «Britannia Linguens» has set down the principles of treasure at length. In his opinion «it is evident that national power is not chimerical, but is founded on people and treasures; and that, according to the different condition of these its true pillars, it immediately grows more vigorous or languid».<sup>3</sup> Treasures are necessary for the following purposes: «For the purchasing of many provisions for war by land and sea, as arms, victuals, ammunition, materials for shipping, and many others, which being gotten, yet neither souldiers nor seamen will now adventure themselves at the mouths of cannon and musket without pay, whereof the further consequence is that the prince and nation which hath the greatest treasure, will finally have the victory, and probably with little or no fighting. — Since the wealth of the Indies came to be discovered and dispersed more and more, wars are managed by much treasure and little fighting, and therefore with little hazard to the richer nation.»<sup>4</sup>

The phrase that money was the «sinews» or the «nerves of war», that we have seen recur in some of the passages referred to above, was a common-place in the mercantile literature.<sup>5</sup> Misselden,

<sup>1</sup> Vaughan, Money, pp. 59—60.

<sup>2</sup> Hobbes, Leviathan, p. 194.

<sup>3</sup> Britannia Linguens. Early Engl. Tracts, pp. 457—8.

<sup>4</sup> Britannia Linguens. Early Engl. Tracts, p. 293.

<sup>5</sup> This phrase is really a very old one. It is to be found already in M a-

for instance, speaks of »sinewes of warre and of state»;<sup>1</sup> Pollexfen asserts that »gold and silver hath alwayes been esteemed the sinewes of warre».<sup>2</sup>

The man who may be given the honour of having transformed such principles of treasure into what may be characterized as a »theory of the store of value», was Petty. His »theory» is set out in the following two passages: »The great and ultimate effect of trade is not wealth at large, but particularly abundance of silver, gold, and jewels, which are not perishable, nor so mutable as other commodities, but are wealth at all times, and all places: Whereas abundance of wine, corn, fowls, flesh, &c. are riches but *hic & nunc*, so as the raising of such commodities, and the following of such trade, which does store the country with gold, silver, jewels, &c. is profitable before others.»<sup>3</sup> Further: »If money be taken from him, who spendeth the same as aforesaid upon eating and drinking, or any other perishing commodity; and the same transferr'd to one that bestoweth it on cloaths; I say, that even in this case, the commonwealth hath some little advantage; because cloaths do not altogether perish so soon as meats and drinks: But if the same be spent in furniture of houses, the advantage is yet a little more; if in building of houses, yet more; if in improving of lands; working of mines, fishing, &c. yet more; but most of all, in bringing gold and silver into the country: Because those things are not only not perishable, but are esteemed for wealth at all times, and every where: Whereas other commodities which are

chiavelli who was quoting it from an old Roman authority, Quintus Curtius (Bonar, Philosophy and Political Economy, p. 60). It occurs in Bodin and is frequent in the German cameralist literature (e.g. in Obrecht: »et quidem pecuniam nervum belli esse satis constat.» — Vide: Zielenziger, Die alten deutschen Kameralisten, p. 178).

<sup>1</sup> Misselden, Free Trade, p. 7.

<sup>2</sup> Pollexfen, Discourse of Trade, p. 75.

<sup>3</sup> Petty, Political Arithmetick. Writings, l. pp. 259—60.

perishable, or whose value depends upon the fashion: or which are contingently scarce and plentiful, are wealth, but *pro hic & nunc*.<sup>1</sup>

We see: Petty proceeds in these passages from the principle of storing wealth and classifies, in the detail, the whole range of economic phenomena according to that principle, i.e. according to the grade of durability and value of commodities. Nowhere else, either before or later, are the principles of treasure put so logically. Nor did Petty himself remain faithful to his own theory, for elsewhere we find him arguing from an other point of view, that of productivity of economic categories.

From our exposition it has appeared what an extraordinary importance was attributed in the early capitalist period to amassing state treasure.<sup>2</sup>

This importance of treasure is in strange contrast with the time before mercantilism as well as with that after it.<sup>3</sup> Obviously, such a contrast cannot be merely accidental, for an idea so widely

<sup>1</sup> Petty, *Political Arithmetick*, Writings, I. p. 269.

<sup>2</sup> Everywhere in Western Europe the importance of treasure is emphasized in the same spirit. Thus Marshal Trivulzio is said to have answered the question what was needed in conducting wars: «Tre cose, Sire, - ci bisognano preparare, danari, danari, ei poi danari» (Zielenziger, o.c., p. 54); in the mouth of Columbus the words are put: Money is the most excellent among all things; the owner of it may do in this world just what he likes, nay, he may even transmit souls to Paradise (Kautz, *Entwicklung der National-Oekonomie*, II. p. 226, Note); King Lewis XIV. of France is reported to have exclaimed in 1692, with regard to the prevailing war between England and France: «No matter, the last piece of gold will win» (Macaulay, *History of England*, IV. p. 317). And that illustrious minister of his, Colbert, has written: «Je crois que l'on demeurera facilement d'accord de ce principe qu'il n'y a que l'abondance d'argent dans un Etat, qui fasse la différence de sa grandeur et de sa puissance» (Sombart, *Der Moderne Kapitalismus*, I. p. 366).

<sup>3</sup> State treasure as such is, of course, of old foundation, but in earlier times primarily it served the personal ambition and desire for luxury of princes; as has, indeed, been the case in East India until modern times.

and universally adhered to by the ablest thinkers must have had a natural foundation in the conditions then prevailing in England, as well as in Europe as a whole, a foundation not existing either before or since. What was this foundation?

The cause of the growing importance of the precious metals at the end of the Middle Ages is not far to seek and has, indeed, already been pointed out in the Introduction: We there saw mercantilism arising from the transition from natural economy to money economy as well as from the concentration of economic leadership in the hands of the central government. Thereby, naturally, also the financial requirements of the state underwent fundamental changes. In Western Europe, as early as the fifteenth century, the command of wealth in a readily exchangeable form was of supreme importance, with a view to international conflicts. Landed proprietors, with their retainers, could not hold their own against professional soldiers; the prince, who commanded large feudal levies, was likely to be worsted by an enemy whose purse enabled him to put well-trained mercenaries into the field. A large territory, manned with dependents, was no longer such a source of strength; and money, which had been a useful adjunct, became the prime necessity for supplying the «sinews of war».<sup>2</sup>

A reference to the breakdown of mediaeval society, though explaining much, cannot, however, wholly solve the question why the precious metals came to be regarded as the sinews of war. For are not money economy and a centralized system of national government still at the present day prevailing in Europe, and yet treasure has everywhere ceased long since to play any part in the considerations of statesmen and economists? There must, evidently, have existed some special feature in the economic structure of early capitalism which made treasure important, a feature that has later disappeared or become inoperative. That feature we shall find in the undeveloped state of public credit.

The origin of public credit in England lies far back in time:

<sup>2</sup> Cunningham, o. c. Modern Times, pp. 1—2.

the Kings of England had been in the habit, from time immemorial, of borrowing in anticipation of the taxes, and obtaining money for immediate use by guaranteeing repayment when certain forms of revenue were collected. Until the end of the seventeenth century, the Crown kept to those old practices. That was the expedient of Charles I., of the Long Parliament, and especially of Charles II. who habitually relied on advances from Goldsmiths.

It is the Glorious Revolution that marks the end of those practices and leads to the modern phase of finance. The immediate cause of this most important change, is to be found in the financial straits of the time: The Stuart Kings had left the Exchequer in deplorable condition at a time when extraordinary sums were needed for the carrying on of continuous wars. The sums required were so large as to exceed any possible proceeds from taxation.<sup>1</sup> In 1694 these financial difficulties led to the establishment of the Bank of England, whose capital was lent to the Government, and two years later to the introduction of Exchequer Bills.

These new expedients in finance came to be of profound significance in the conduct of public affairs: borrowing by the state was thereby rendered much easier than it had ever been before and the Government secured greater economic stability. The rapidity of the expansion of public credit in the years to follow is amazing: In 1691 the floating charges amounted to over £ 3,000,000; in 1697 the capital of the debt had reached £ 21,000,000, and in

<sup>1</sup> Macaulay gives the following description of the extreme pecuniary difficulties of the time: "The year 1692 had bequeathed a large deficit to the year 1693; and it seemed probable that the charge for 1693 would exceed by about five hundred thousand pounds the charge for 1692. More than two millions had been voted for the army and ordnance, near two millions for the navy. Only eight years before fourteen hundred thousand pounds had defrayed the whole annual charge of government. More than four times that sum was now required. Taxation, both direct and indirect, had been carried to an unprecedented point: yet the income of the state still fell short of the outlay by about a million. It was necessary to devise something. Something was devised, something of which the effects are felt to this day in every part of the globe (History of England, IV. pp. 318—19)."

1713, £ 53,000,000.<sup>1</sup> The efficiency of the public credit system had really undergone a revolution. A contemporary economist, Charles D'Avenant, has described in an interesting passage the practical effects of this financial revolution: »The millions given every year in Parliament were presently raised, and the public supplied, though the fund was never so unsound or chimerical: provisions were brought in for the navy without difficulty: the soldier had his subsistence, and the war was carried on by land and sea, without the fleet or army being in any great arrears.»<sup>2</sup>

But let us now return to the time preceding the modern phase of the public credit system. We must, in face of the facts referred to above, describe the period after the general introduction of money economy and before the related revolution of public credit as forming a financial epoch of its own. Financial problems, then presenting themselves for statesmen and economists and demanding solution, bore a peculiar character and necessitated ways and means differing from earlier as well as from later expedients. In the lack of effective credit, the command of wealth in a readily exchangeable form alone afforded ready command over the means supporting military forces in cases of national emergency.

In modern society there are three general classes of property which are exchangeable abroad: (1) Fixed capital, e. g. factories, railways or land, represented by negotiable securities; (2) exportable commodities; (3) gold and silver. In the seventeenth century, the first of these categories was practically unknown, for it has, of course, arisen first with the expansion of credit economy. As to the second class, exportable commodities, it was not of nearly so great consequence as it has been later, when the extension of industry, improvements in communication and the uncomparable development of commercial credit, have brought countries closer together and, what is even more important, have rendered the

<sup>1</sup> Meredith, *Outlines of the Economic History*, p. 220.

<sup>2</sup> D'Avenant, *Discourses on the Public Revenues*, Works, I. p. 144.

proceeds of export available at a much earlier date.<sup>1</sup> As to the third class, gold and silver, it possessed, as it possesses still at present, the characteristics of ready exchangeability and stable value in the highest degree. There was an old sentence, running: *«Pecuniam habens habet omnem rem, quam vult habere.»* Locke expressed the same idea as follows: *«The intrinsick value of silver, considered as money, is that estimate which common consent has placed on it, whereby it is made equivalent to all other things, and consequently is the universal barter, or exchange, which men give and receive for other things, they would purchase or part with, for a valuable consideration: and thus, as the wise man tells us, money answers all things.»*<sup>2</sup>

Gold and silver represented thus in the sixteenth and the greater part of the seventeenth century almost alone easily exchangeable values, required for financial operations by the state. In those conditions the amassing of treasure was, certainly, a very natural expedient of statesmen. That was, indeed, acknowledged even by Adam Smith, when he said: *«Among nations to whom commerce and manufactures are little known, the sovereign, upon extraordinary occasions, can seldom draw any considerable aid from his subjects. — It is in such countries, therefore, that he generally endeavours to accumulate a treasure, as the only resource against such emergencies.»*<sup>3</sup> While on the other hand,

<sup>1</sup> By the time of Adam Smith, exportable commodities had already grown more important for the finances of the state, as appears from the following passage: *«The commodities most proper for being transported to distant countries — — seem to be the finer and more improved manufactures; such as contain a great value in a small bulk, and can, therefore, be exported to a great distance at little expence. A country whose industry produces a great annual surplus of such manufactures, which are usually exported to foreign countries, may carry on for many years a very expensive foreign war, without either exporting any considerable quantity of gold and silver, or even having any such quantity to export»* (Wealth of Nations, I. p. 410).

<sup>2</sup> Locke, Further Considerations. Essays, p. 652.

<sup>3</sup> Adam Smith, The Wealth of Nations, I. p. 412.

«the sovereigns of improved and commercial countries are not under the same necessity of accumulating treasures».<sup>1</sup>

If thus the conditions of early capitalism were in themselves enhancing the importance of the precious metals, there was in the course of the sixteenth century added a secondary factor working in the same direction. That was the discovery of the American silver mines. Countries, first affected by the influx of vast quantities of new silver, found themselves unexpectedly in possession of «the sinews of war», whereby the old political equilibrium of Europe was, naturally, greatly endangered. An exciting hunt after the precious metals arose. A hunt, in which it was not only necessary for every nation to keep the old stock of those metals, but equally necessary to get a share of the new supplies of silver, at least corresponding to the share they formerly possessed of the silver and gold stock of the world, if the balance of power was not to be altered to their prejudice.

This chase after gold and silver, this keeping of the eyes on the increasing or diminishing stock of neighbouring countries, appears clearly enough from mercantilist statements. Thus, already Raleigh asserted that the power of Philipp II. was not based on the wine or the orange trade nor on any other productions of the mother-country, but on the American mines: «It is his Indian gold that indangereth and disturbeth all the nations of Europe, it purchaseth intelligence, creepeth into counsels, and setteth bound loyalty at libertie, in the greatest Monarchies of Europe.»<sup>2</sup> Petty, answering the question as to when the nation should rest from the great industry of hoarding, asserts: «I answer, when we have certainly more money than any of our neighbour states, (though never so little) both in Arithmetrical and Geometrical proportion (i. e.) when we have more years provision aforehand, and more present effects.»<sup>3</sup> And Locke lays

<sup>1</sup> Adam Smith, *ibidem*.

<sup>2</sup> Schacht, *o. c.*, p. 59.

<sup>3</sup> Petty, *Verbum Sapienti*. Writings, I. p. 119.

down the same idea as follows: Money also is necessary to us, in a certain proportion to the plenty of it amongst our neighbours. For, if any of our neighbours have it in a much greater abundance than we, we are many ways obnoxious to them. 1. They can maintain a greater force. 2. They can tempt away our people, by greater wages, to serve them by land, or sea, or in any labour. 3. They can command the markets, and thereby break our trade, and make us poor. 4. They can on any occasion ingross naval and warlike stores, and thereby endanger us.<sup>1</sup>

To conclude: Seen against the background of the age of early capitalism, the importance that mercantile writers attributed to gold and silver in their function as stores of value appears as a natural outcome of historical conditions. In those conditions it was not necessarily an exaggeration to call gold and silver «the sinews of war»<sup>2</sup>, or to assert, as Roberts did, that they carried with them «the prebeminence, and predominancy over all other commodities». or, as Vaughan did, that «in the modern forms

<sup>1</sup> Locke, *Further Considerations*. Essays, p. 658. Cf. also: «Riches do not consist in having more gold and silver, but in having more in proportion than the rest of the world, or than our neighbours, whereby we are enabled to procure to ourselves a greater plenty of the conveniences of life, than comes within the reach of neighbouring kingdoms and states, who, sharing the gold and silver of the world in a less proportion, want the means of plenty and power, and so are poorer. Nor would they be one jot the richer, if, by the discovery of new mines, the quantity of gold and silver in the world becoming twice as much as it is, their shares of them should be doubled» (Locke, *Considerations*. Essays, pp. 565—6).

<sup>2</sup> Bishop Berkeley objected to denoting money «the sinews of war», on the following grounds: «So just is that remark of Machiavel — that there is no truth in the common saying, money is the nerves of war; and though we may subsist tolerably for a time amongst corrupt neighbours, yet if ever we have to do with a hardy, temperate, religious sort of men, we shall find, to our cost, that all our riches are but a poor exchange for that simplicity of manners which we despise in our ancestors» (*An Essay towards Preventing the Ruin*. Works, IV. p. 327). Berkeley overlooked the fact, that the early mercantilists, by calling money the sinews or the nerves of war, did not forget that people, materials of war, etc. were the primary requisites of war.

of commonwealths there is no proportion, no mediocrity of money, but all do strive to abound with it, without any stint. And hence it is that rarity is almost the sole inconvenience in matter of money. All this was not necessarily an exaggeration if only the acquiring of the precious metals was clearly perceived, not as an end in itself, but as a means to further ends. And that that actually was the case, as far at least as leading mercantile economists are concerned, has appeared in the course of our exposition.

## IV. Gold and Silver: The Standards of Money.

### 1.

The general functions of money are: (1) Money is used as a medium of exchange, when, in a particular bargain, it is transferred from the buyer to the seller; (2) Money is used as a measure of value, when by means of it prices are expressed and calculated.

These functions of money were not unknown to mercantile writers.<sup>1</sup> Thus Hales asserted: «Gold and silver — — are chosen by a common consent of all the world, that is known to be of any civillie, to be instrumentes of exchange to measure all thinges by».<sup>2</sup> Malynes wrote: «Money was ordained as a pledge or right betwixt man and man, and in contracts and bargaining a iust measure and proportion.»<sup>3</sup> «According to Mun, «Money doth attend merchandize, for money is the price of wares, and wares are the proper use of money; so that their coherence is unseparable.»<sup>4</sup> Vaughan described the function of money

<sup>1</sup> In the Middle Ages, the canonist theory had regarded money only as a denominator of value. A broader conception had not, however, been wholly wanting: Thus, the famous French economist, Bishop Oresme, had so early as in the fourteenth century clearly pointed out the function of money as a medium of exchange, showing the convenience of exchange, because of the difference of natural products in different places and defining money as the instrument of interchanging the natural riches which in themselves supply human wants (Cunningham, *o. c.* Early and Middle Ages, p. 357).

<sup>2</sup> Hales, *o. c.*, p. 73.

<sup>3</sup> Malynes, *St. George*, p. 60.

<sup>4</sup> Mun, *A Discourse*, p. 22.

as a medium of exchange in these words: «The first invention of money was for a pledge and instead of a duty for when men did use by exchange of their wants and superfluities, both parties could not always fit one another at the present.»<sup>1</sup> In Hobbess we find a passage explaining the function of money as follows: «Gold and silver, being (as it happens) almost in all countries of the world highly valued, is a common measure of the value of all things else between nations; and money (of what matter so ever coined by the sovereign of that common-wealth) is a sufficient measure of the value of all things else between the subjects of that common-wealth. By the means of which measures, all commodities, moveable and immovable are made to accompany a man to all places of his resort, within or without the place of his ordinary residence; and the same passeth from man to man within the common-wealth; and goes round about nourishing (as it passeth) every part thereof.»<sup>2</sup>

Towards the end of the seventeenth century definitions of money grew more and more in clearness. Here may be quoted a passage of Locke, distinguished by its lucidity. «Now money is necessary to all these sorts of men, as serving both for counters and for pledges, and so carrying with it even reckoning, and security, that he that receives it shall have the same value for it again, of other things that he wants, whenever he pleases. The one of these it does by its stamp and denomination; the other by its intrinsic value, which is its quantity.»<sup>3</sup>

It being thus generally recognized by mercantile writers that the utility of money consisted in its specific economic functions, attention was very naturally directed to the question of the quantity of money needed to perform these functions. It was just this question of quantity that brought speculations on money into close relation with the balance of trade, gold and silver, the materials of

<sup>1</sup> Vaughan, o. c., p. 1.

<sup>2</sup> Hobbess, *Leviathan*, p. 193.

<sup>3</sup> Locke, *Considerations. Essays*, p. 572.

money, being only acquirable through an active foreign trade.<sup>1</sup> The question was touched upon by Mun in the following passage: 'It resteth now that I distinguish the seeming plenty of money from that which is only substantial and able to perform the work: For there are divers ways and means whereby to procure plenty of money into a kingdom, which do not enrich but rather impoverish the same by the several inconveniences which ever accompany such alterations. As first, if we melt down our plate into coyn — it would cause plenty of money for a time, yet should we be nothing the richer, but rather this treasure being thus altered is made the more apt to be carried out of the kingdom.'<sup>2</sup> The meaning of this passage seems to be that only a certain quantity of money was required 'to perform the work', an excess of which would be useless and flow to countries where a stronger demand for it existed.

Vaughan discusses the question of quantity at length. His exposition is exceedingly interesting and is well deserving of a close examination. He starts by putting down some general monetary principles as follows: 'If I were to handle this subject as part of a treatise of the best form of a common-wealth, I would first endeavour to search out what proportion of money were fittest for the common-wealth, for if money were invented for the exchange of things useful to man's life, there is a certain proportion for that use, and there is as well a too much as a too little; because that the want of money makes the life of the citizens penurious and barbarous, so the over-great abundance of money makes their

<sup>1</sup> Be it noted, that this question of quantity had reference only to money as a medium of exchange, for money, in its function as a measure of value, was not fettered as to any definite quantity. This fact was pointed out by Locke as follows: 'The necessity, therefore, of a proportion of money to trade, depends on money, not as counters, for the reckoning may be kept, or transferred by writing; but on money as a pledge, which writing cannot supply the place of' (Considerations. Essays, p. 572). On this account, the question of money as a measure of value was of little consequence to the theory of the balance of trade, and shall not be further referred to, consequently, in the course of our study.

<sup>2</sup> Mun, England's Treasure, p. 28.

lives luxurious and wanton, by reason of the great commutability of all things for money, by which the vain and vicious fancies of men are presently supplied with all that they do affect.»<sup>1</sup>

These sentences of Vaughan display considerable theoretical insight into the character of money. But having put down them, the author stops, unexpectedly, short in his reasoning; the passage continues namely as follows: «But I must apply my conceit to the common-wealth as it is, not as a philosopher may frame it by discourse: and therefore ought rather to imitate a good rider, than a good breaker of horses, whose part it is to perfect the horse in all his natural actions, and to redeem and win him from all vicious affections; but for the rider it is enough if he do use him to the best advantage such as he finds him.»<sup>2</sup> Continuing the passage, the author then points out how in the common opinion a state abounding in money has courage, has men and all the instruments to defend itself and how, therefore, «rarity is almost the sole inconvenience in matter of money».<sup>3</sup>

The conclusion to which Vaughan thus finally comes, seemingly contradicts his view at the outset of the exposition. He was apparently himself aware of the inconsistency of his reasoning, but was not able to reconcile what he seems to have regarded as a purely theoretical point of view, with a view apparently better suited to the practical conditions of life. For us it is not difficult to point out where the fault in Vaughan's reasoning lies: Employing the term money simultaneously in two different senses, he had at the outset the conception of the medium of exchange in his thoughts; in the course of the exposition this conception was, however, dropped and its place was taken, unawares, by that of gold and silver as stores of value. Thus, Vaughan was not at fault in either of his views; he only confused them together.

William Potter, by mentioning besides the abundance also

<sup>1</sup> Vaughan, o. c., pp. 58—59.

<sup>2</sup> Vaughan, o. c., p. 59.

<sup>3</sup> Vaughan, o. c., p. 60. Cf. above, p. 50.

the mobility of money, seems to have been the first to draw attention to the fact that the effective quantity of money did not depend on the absolute quantity of money alone, but also on the rapidity with which every particular piece of money was circulating.<sup>1</sup> Child, for his part, pointed out the extended circulation arising from the use of credit facilities: »The law that is in use among them [the Dutch] for transferring of bills for debt from one man to another: this is of extraordinary advantage to them in their commerce; by means which, they can turn their stocks twice or thrice in trade, for once that we can in England.»<sup>2</sup>

But Petty and Locke are the two economists of the seventeenth century discussing the topic of the effective quantity of money in the ablest way. The former proceeded on the following lines: »The keeping or lessening of money, is not of that consequence that many guess it to be of. For in most places, especially Ireland, nay, England it self, the money of the whole nation is but about  $\frac{1}{10}$  of the expence of one year; viz. Ireland is thought to have about 400 m.l. in cash, and to spend about 4 millions per ann. Wherefore it is very ill-husbandry to double the cash of the nation, by destroying half its wealth; or to increase the cash otherwise than by increasing the wealth simul & semel.

That is, when the nation hath  $\frac{1}{10}$  more cash, I require it should have  $\frac{1}{10}$  more wealth, if it be possible. For, there may be as well too much money in a country, as too little. I mean, as to the best advantage of its trade; onely the remedy is very easy, it may be soon turn'd into the magnificence of gold and silver vessels.»<sup>3</sup>

This passage of Petty, by the side of other passages of his written in the same spirit, is a remarkable proof of his mental power of penetrating intricate theoretical problems. We have already in discussing the topic of treasure mentioned him as the most logical formulator of what was called »the theory of a store

<sup>1</sup> Potter, *The Trades-man's Jewel*, p. 5

<sup>2</sup> Child, *A New Discourse*, p. 7.

<sup>3</sup> Petty, *The Political Anatomy*. Writings I, pp. 192 -3.

of value. There he was pleading for amassing gold and silver practically in any quantity; here the same writer draws clearly defined limits for the effective quantity of money, excess being as little desirable as shortage. Petty thus succeeded in avoiding the fatal trap into which Vaughan had fallen by not clearly distinguishing the different functions of gold and silver. Petty was in expounding these principles of an effective quantity of money, far ahead of the prevalent opinion of the age, as may be seen, for instance, from the interesting objection raised by a friend of his, Sir Richard Cox, in a letter dated June 15<sup>th</sup>, 1687, and running as follows: «It is difficult to prove that there can be too much money in a kingdom.»<sup>1</sup>

Petty was fully aware not only of the fact that the amount of money that was requisite for the trade of the nation was dependent on the scope of her commercial intercourse, but also of the influence which the rapidity of circulation and exchange without the medium of money exert upon the effective amount of money, as appears from the following passage: «Now as the proportion of the number of farthings requisite in comerce is to be taken from the number of people, the frequency of their exchanges; as also, and principally from the value of the smallest silver pieces of money: so in like maner, the proportion of money requisite to our trade is to be likewise taken from the frequency of commutations, and from the bigness of the payments, that are by law or custome usually made otherwise.»<sup>2</sup>

Locke proceeds on the same lines. He proposes in the form of an economic maxim: «That in a country, that hath open comerce with the rest of the world, and uses money, made of the same materials with their neighbours, any quantity of that money will not serve to drive any quantity of trade; but there must be a certain proportion between their money and trade.»<sup>3</sup> The agents

<sup>1</sup> Petty, Writings, I. p. 193, note 1.

<sup>2</sup> Petty, A Treatise of Taxes. Writings, I. pp. 35—6.

<sup>3</sup> Locke, Considerations. Essays, p. 591.

determining this just proportion between money and trade, are pointed out: »Every man must have at least so much money, or so timely recruits, as may in hand, or in a short distance of time, satisfy his creditor who supplies him with the necessaries of life, or of his trade. For no body has any longer these necessary supplies, than he has money or credit, which is nothing else but an assurance of money, in some short time. — — This shews the necessity of some proportion of money to trade: but what proportion it is, is hard to determine; because it depends not barely on the quantity of money, but the quickness of its circulation. The very same shilling may, at one time, pay twenty men in twenty days: at another, rest in the same hands one hundred days together.»<sup>1</sup>

It being recognized that the use of money lay in its circulation and that its efficacy largely depended upon the velocity with which it circulated, attention was very naturally turned to the question how money was to be best employed for the purposes of trade.<sup>2</sup> Already Bacon had been comparing the precious metals with manure: hoarded they were barren, diffused over the country, they became fertile.<sup>3</sup> Thomas Mun emphatically condemned the amassing of any considerable quantities of money by private people: »It were vanity and against their profit to keep continually in their hands above forty or fifty pounds in a family to defray necessary charges, the rest must ever run from man to man in traffique for their benefit.»<sup>4</sup> The welfare of the country demanded that money should circulate, for »it is a true lesson for all the land to observe, lest

<sup>1</sup> Locke, *Considerations*, *Essays*, p. 573.

<sup>2</sup> It being also recognized that the existing stock of metallic money could be extended by means of credit, greater use of credit facilities was recommended by many of the seventeenth century economists. As such considerations were ultimately to destroy the theory of the balance of trade, they are best studied in connection with the decay of the balance theory.

<sup>3</sup> Oncken, *o. c.*, p. 217.

<sup>4</sup> Mun, *o. c.*, p. 41.

when wee have gained some store of money by trade, wee lose it again by not trading with our money». <sup>1</sup>

There is an apparent contradiction in Mun's reasoning. We have before seen him strongly pleading for hoarding of treasure; but here he stands for the greatest possible diffusion of money. This peculiar attitude of Mun was a consequence of the fact, that two opposite currents, equally important, were here in conflict: The safety of the nation demanded, on the one hand, keeping of an effective national reserve stock in the form of a state treasure; the expansion of trade demanded, on the other hand, increasing stock and quicker circulation of money. These contradictory interests Mun tried to co-ordinate, as far as it was to be done, by a compromise: he recommended the amassing of state treasure, but rejected private hoarding. And further: he put certain limits even to hoarding by the state: that had always to be suited to the conditions of trade, «for although the revenue of a king should be very great, yet if the gain of the kingdom be but small, this latter must ever give rule and proportion to that treasure which may conveniently be laid up yearly, for if he should mass up more money than is gained by the overbalance of his forraign trade, he shall not fleece, but flea his subjects, and so with their ruin overthrow himself for want of future sheerings». <sup>2</sup>

«For a prince (in this case) is like the stomach in the body, which if it cease to digest and distribute to the other members, it doth no sooner corrupt them, but it destroyes it self.» <sup>3</sup>

We have here really before us the same financial problem that has been the foremost in our own time: that of the taxable capacity of the community; and we have also the warning of the economist against killing the goose that lays the golden eggs. The form in which this problem presented itself to Mun, was only different according to the peculiar financial circumstances of the early capitalist epoch.

<sup>1</sup> Mun, o. c., p. 24.

<sup>2</sup> Mun, o. c., pp. 92—3.

<sup>3</sup> Mun, o. c., p. 95.

The point of view, that we have seen Mun expounding, seems to have been the prevailing opinion among economists of his age.<sup>1</sup> All economic writers of importance from the latter part of the seventeenth century, referring to the question, condemned private hoarding, and recommended an effective use of the stock of money and of the national resources of gold and silver. Thus Vaughan said: »A third cause of the rarity of money and the materials thereof, is the wasting and consuming it within the kingdom, as in guildings, gold and silver-thread, and in-layings, all which is consumed in a manner to nothing, the excessive use likewise of plate maketh money scant, but all these defects are to be remedied by sumptuary laws.«<sup>2</sup> Petty, likewise, would have preferred money to plate: »Much of our plate, had it remain'd money, would have better served trade.«<sup>3</sup> Fortrey defended luxurious expenditure within certain limits as money would thereby be more moving, which would be a great encouragement and satisfaction to the people.<sup>4</sup> Child pointed out the bad effects of unequal distribution of money: »This complaint in the country, proceeds from the late practice of bringing up the tax-money in waggons to London, which did doubtless cause a scarcity of money in the country.«<sup>5</sup> D'Avenant produced a similar complaint: »In former times the wealth of England was far more equally dispersed than it has been of late. — — It could never be said till now, that London was at one time owner and mistress of almost the whole species

<sup>1</sup> Similar views were brought forward also in other countries; for instance, by the Italian economist, Botero, and the German, Schröder, who wrote: »Die Sparsamkeit des Fürsten soll sich nicht weiter erstrecken, als so viel jährlich die Einkommen des Landes die Ausgaben übertreffen, und ja nicht das Kapital des Landes angreifen und davon etwas in seinen Schatz legen« (Roscher, Geschichte der National-Oekonomik, p. 297).

<sup>2</sup> Vaughan, o. c., p. 66.

<sup>3</sup> Petty, Political Arithmetick. Writings, I. p. 243.

<sup>4</sup> Fortrey, o. c., p. 27.

<sup>5</sup> Child, A New Discourse. Preface.

of silver; and yet; it is to be fear'd, this is our case at present.\*<sup>1</sup> And Locke opposed private hoarding as follows: »The provident publick, or private care, is to keep it [money] from venting, or consuming, i. e. from exportation, which is its proper consumption; and from hoarding up by others, which is a sort of ingrossing.»<sup>2</sup>

Lastly a passage of D'Avenant may be quoted, a passage in which the principles of the medium of exchange found their most advanced expression in the seventeenth century:

»It is not the taking in a great deal of food, but it is good digestion and distribution that nourishes the body and keeps it healthy.

The same thing holds in the body politic; so that gold and silver are often a surfeiting diet to a nation; and there may be as well too much as too little of this kind of treasure, if it be not turned to proper uses.

Where it flows so fast in as to choke industry, or where it is suffered to stagnate, it does more hurt than good.

The lazy temper (which is now grown inveterate nature in the Spaniards) came undoubtedly upon them, with that affluence of money which was brought into their country in the reign of Philip II. presuming upon which, they neglected arts, labour and manufactures. — — —

Trade and manufactures are the only mediums by which such a digestion and distribution of gold and silver can be made, as will be nutritive to the body politic. — — —

These metals then are so far from being — — — 'the only, or most useful riches'; that sometimes they may be hurtful, and are never at all useful, but when in motion and ministering to trade and the other business of a people.»<sup>3</sup>

We have thus shortly inquired into the general character of money as a medium of exchange as it was understood in the mercantile literature of the seventeenth century and as it throws light

<sup>1</sup> D'Avenant, Discourses on the Public Revenues. Works, I. p. 158.

<sup>2</sup> Locke, Considerations. Essays, p. 588.

<sup>3</sup> D'Avenant, Discourses on the Public Revenues. Works, II. pp.

upon the problems of the theory of the balance of trade. In considering the theoretical achievement of these mercantilists, we have to draw attention to the great obstacles which were to be surmounted before a clear insight into the nature of money could be gained. (1) There was little monetary theory handed down by an earlier age, and useful in the changed economic structure of early capitalism, (2) The problems of money are in themselves of an extraordinarily intricate nature, as was humorously pointed out by Petty when he said that «one might lanch out into the deep ocean of all the mysteries concerning money»<sup>1</sup> The problems of money defy, indeed, still to-day the attempts of economists to establish a universally accepted theory of money.<sup>2</sup> (3) Confusion between the different functions of gold and silver was, as has been pointed out, easier in the conditions of a pure money economy than in those of a credit economy, as these metals were simultaneously and urgently required for purposes of treasure as well as for purposes of exchange.

When all this is considered, it must be readily allowed that these mercantile writers need not be ashamed of the principles of money they were expounding. They cannot, it is true, be exonerated from the charges of obscurity in terminology and of much confusion in thought, but then there may also be found delightful theoretical remarks on the subject and a steady progress in insight into the real character of money. The expositions of Petty or Locke or D'Avenant mark already a high stage of monetary theory.

<sup>1</sup> Petty, *A Treatise of Taxes*. Writings, I p. 85

<sup>2</sup> Not to speak of all the rude fallacies as regards money still prevailing. What Harris asserted a hundred and fifty years ago holds even to-day. «And unfortunately, money is a subject wherein men in general have given themselves the least trouble of enquiry, and yet a subject-upon which they think themselves best qualified and best entitled to decide. A subject upon which, more jejune, incoherent and dangerous positions have been held, and more glaring absurdities advanced, than, perhaps, upon any other whatsoever» (*An Essay upon Money*, II Preface).

## 2.

Now that we possess full knowledge of the general character attributed to the medium of exchange by mercantile writers, we may proceed to consider what importance was given to the economic services rendered by the medium of exchange, for only now are we assured of being able to avoid misconceptions as to the true meaning of passages to be referred to.

The mercantile attitude towards money is clearly illuminated. A great number of passages might be brought forward from the economic literature of the seventeenth century describing the economic value of money. In almost all of them the mode of argument was practically the same. The current notion of money appears as in a nutshell from the epithets by which the writers tried to characterize the economic services of the medium of exchange. Malynes called money «soul in the body»;<sup>1</sup> Misselden called it «vital spirit of trade».<sup>2</sup> In the instructions of the Standing Commission on Trade of 1622, a passage began as follows: «And because the life of commerce and trade is money —»<sup>3</sup> Vaughan asserted that money is not ill compared to the *materia prima*, because, though it serves actually to no use almost, it serves potentially to all uses.<sup>4</sup> Hobbes, again, said that money is «as it were the sanguification of the common-wealth: For naturall blood is in like manner made of the fruits of the earth; and circulating, nourisheth by the way, every member of the body of man».<sup>5</sup> According to Fortrey the use of money was «the life and sinews of trade».<sup>6</sup> Child described money as «our tools, our stock, to drive a great trade with»;<sup>7</sup> and Petty, the physician, denoted it «the fat of the

<sup>1</sup> Malynes, *The Maintenance*, p. 2.

<sup>2</sup> Misselden, *Free Trade*, p. 28.

<sup>3</sup> Cunningham, *o. c.* *Modern Times*, p. 216, note 2.

<sup>4</sup> Vaughan, *o. c.*, p. 3.

<sup>5</sup> Hobbes, *o. c.*, p. 193.

<sup>6</sup> Fortrey, *o. c.*, p. 36.

<sup>7</sup> Child, *A New Discourse*, p. 178.

body-politick»; for, so he asserted, »as fat lubricates the motion of the muscles, feeds in want of victuals, fills up uneven cavities, and beautifies the body, so doth money in the state quicken its action, feeds from abroad in the time of dearth at home; even accounts by reason of it's divisibility, and beautifies the whole, altho more especially the particular persons that have it in plenty». <sup>1</sup> According to Locke money was »as necessary for trade as food is to life»; <sup>2</sup> and D'Avenant asserted that money keeps »the wheels of the machine in motion». <sup>3</sup>

The metaphors and comparisons with which mercantilists liked to characterize the valuable services money rendered to society, give, thus, a very vivid impression, indeed, of what an important place money occupied in their considerations. But the importance of money was not always expressed with the aid of images; often it was put down in plain English. Malynes asserted that »by money a trade is made for the imployment of it both at home and abroad.» <sup>4</sup> Thomas Mun said outright: »Money begets trade, and trade encreaseth money.» <sup>5</sup> The same idea was expressed by Vaughan in the words: »For manufactures do breed money, and money again doth breed manufactures»; <sup>6</sup> and by Locke as follows: »Trade, then, is necessary to the producing of riches, and money necessary to the carrying on of trade.» <sup>7</sup>

A few more passages may be quoted in which the important role of money was very strongly emphasized. In Petty we find the following passage: »If the largeness of a publick exhibition should leave less money then is necessary to drive the nations trade, then the mischief thereof would be the doing of less work,

<sup>1</sup> Petty, *Verbum Sapienti*. Writings, I. p. 113.

<sup>2</sup> Locke, *Considerations*. Essays, p. 562.

<sup>3</sup> D'Avenant, *Discourses on the Public Revenues*. Works, I. p. 448.

<sup>4</sup> Malynes, *Lex Mercatoria*, II. p. 253.

<sup>5</sup> Mun, *o. c.*, p. 20.

<sup>6</sup> Vaughan, *o. c.*, p. 61.

<sup>7</sup> Locke, *Considerations*. Essays, p. 566.

which is the same as lessening the people, or their art and industry; for a hundred pound passing a hundred hands for wages, causes a 10,000 l. worth of commodities to be produced, which hands would have been idle and useless, had there not been this continual motive to their employment.»<sup>1</sup> According to D' Avenant, «Numbers of men, industry, advantageous situation, good ports, skill in maritime affairs, with a good annual income from the earth, are true and lasting riches to a country; but to put a value upon all this, and to put life and motion to the whole, there must be a quick stock running among the people; and always where that stock increases, the nation grows strong and powerful; and where it visibly decays, that decay is generally attended with public ruin.»<sup>2</sup> And in an other place the same author writes: «Trade brings in the stock; this stock, well and industriously managed, betters land, and brings more product of all kind for exportation; the returns of which growth and product are to make a country gainers in the balance.»<sup>3</sup>

The passages quoted above have together given an eloquent testimony to the importance attributed to money by mercantile writers. Money was thought to be a powerful stimulus to trade, and it appeared even in the role of a creator of new commercial activities. There was, indeed, almost something mystical about the power money seemed to exercise in society.<sup>4</sup>

This mercantile attitude towards money stands in strange and deep contrast with the corresponding opinions of a previous age. The canonist theory had stigmatized money as barren in the course of economic activities, appreciating it merely as a denominator of value.<sup>4</sup> This view found its shortest expression in the maxim: *nummus nummum non parere potest*.

<sup>1</sup> Petty, A Treatise of Taxes. Writings, I. p. 36.

<sup>2</sup> D' Avenant, Discourses on the Public Revenues. Works, I. p. 447.

<sup>3</sup> D' Avenant, An Essay upon the Probable Methods. Works, II. p. 221.

<sup>4</sup> Here may be pointed out a passage of Locke running as follows: «For land produces naturally something new and profitable, and of value to

The contrast between the views current in the Middle Ages and those of the mercantile age, finds its natural explanation in the fact, that in the meantime money economy was being generally introduced, as was pointed out in the Introduction. As long as natural economy held its own, there was, of course, no temptation to overrate the role of money; it had, indeed, primarily, the character of a denominator of value. With the introduction of money economy and the simultaneous reconstruction of society on a capitalist basis, the position of money underwent, however, a complete change; the foremost function of money came now to be more and more that of a medium of exchange. But let us try exactly to define the general role of the medium of exchange in the type of society prevailing since the end of the Middle Ages:

In the capitalist system, organized on the principles of private ownership and division of labour, an exchange of commodities among the members of society, is a practical necessity. Without a common medium, exchange could take place only by barter. But where barter is the prevailing form of exchange, an effective division of labour and a diversification of industry is difficult, if not impossible, for then the producer, in directing his productive activities, can, in general, have only regard to the requirements of his own wants or to the wants of individuals whom he comes in personal contact with and who belong thus to a comparatively narrow circle. It is only after the introduction of money economy that a greater subdivision of labour is made possible. Production is freed from the fetters of a narrow circle, whereby production for a market, the true characteristic of the capitalist system, becomes possible. This function of money is well compared with the services rendered by the means of transport. For as by means

mankind, but money is a barren thing, and produceth nothing; but by compact transfers that profit, that was the reward of one man's labour, into another man's pockets (*Considerations. Essays*, p. 582). The assertion that money is a barren thing, is here not to be taken in the mediaeval sense, as appears from the continuation of this passage where the paying of interest is justified, as well as from the author's attitude in general.

of money, production is freed from the fetters of personal contact between producer and consumer, so with improving means of transport, the supplying of wants is freed from the narrowness of local demand.

Money plays a part — let it be clearly understood — not only in the distribution and redistribution of finished goods; it is directly connected with the process of production by facilitating exchanges necessary for every particular act of large-scale production. Before the introduction of money economy energetic and vigorous men had little opportunity of displaying their powers in the industrial sphere, as facilities for forming capital were not available. »The existence of the precious metals in a community enables the type known as 'the business man' to arise and function by directing the flow of 'superfluous industrial energy' from the production of immediate to that of mediate goods; or in other words, from the direct production of consumers' wealth, to the production of industrial and commercial capital-goods». <sup>1</sup> By means of money, workshops, machines, materials and labour are brought together and into the hands of organizers of industry who know how to use them to most advantage.

To sum up: Money is indissolubly connected with capitalism and capitalist enterprise and may, truly, be designated as one of the most essential economic forces in modern society. Much in

<sup>1</sup> Hobson, *The Evolution of Modern Capitalism*, p. 6. Cunningham writes: »The predominance of capital is the leading feature which distinguishes modern economic conditions from those of the Middle Ages. There undoubtedly were energetic and vigorous men in all eras of history; but they had no opportunity of displaying their powers, in the industrial sphere, till facilities were available for forming capital, and there was freedom for employing it in many kinds of business. This state of affairs existed, to some extent, in the Elizabethan era, and it has become more and more common in subsequent times. The moneyed men who organise labour on a large scale and bring it to bear, in the directions which offer the best prospect of a profit, have given a feverish, restless character to modern life, that seems to us to have been lacking in mediaeval days.» (O. c. *Modern Times*, p. 12).

the appreciation of money by mercantile writers does not, therefore, appear unreasonable. There was certainly nothing blamable in calling money »the life of trade» or »the wheels of the machine», or some such thing. (Due allowance being made for the fact that a metaphor never gives the whole truth but throws light only on the specific aspect in question). Nor were mercantilists wrong in affirming that without sufficient money trade could not flourish. Surely, a contrary attitude would have been a fatal mistake.

But what strikes a modern reader of mercantile expositions of money, is, in general, the fact that the emphatic stress laid on money stands in a strange contrast to the attitude that has been, as a whole, prevalent among economists and politicians of a later age; and, in particular, the frequent suggestions that money plays a creative, an active role in trade, when, on the contrary, the very function of money is to be a wholly passive partaker in economic transactions. The question presents itself: Was this mercantile mentality a mere exaggeration arising from incapacity for exact thinking, or had it perhaps some foundation in the historical conditions of early capitalism? This question will be closely inquired into in the two remaining sections of this chapter.

### 3.

One strong motive to the attention paid to money questions, was the opinion, to be found in most mercantile writers of the seventeenth century, that England was suffering from a scarcity of money, permanent or temporary, or, that such a stage of things was, at least, imminent unless all possible care was taken of the balance of trade. Thus Malynes asserted that »all the said causes of the decay of trade in England are almost all of them comprised in one, which is the want of money».<sup>1</sup> Misselden, the antagonist of Malynes, was on this point in full agreement with him; the first chapter of his »Free Trade» bears the characteristic heading:

<sup>1</sup> Malynes, *The Maintenance of Free Trade*, p. 104.

«The Causes of the Want of Money in England.»<sup>1</sup> The Standing Commission on Trade, appointed in 1622, were to inquire how to remedy the unusual scarcity of money.<sup>2</sup> Petty, for his part, asserted that «scarcity of money is another cause of the bad payment of taxes». <sup>3</sup> In Locke we find a passage in which the case was discussed at length: «This was the ordinary course, whilst we had money running, in the several channels of commerce: but that now very much failing, and the farmer, not having money to pay the labourer, supplies him with corn, which, in this great plenty, the labourer will have at his own rate, or else not take it off his hands for wages. And as for the workmen, who are employed in our manufactures, especially the woollen one, these the clothier, not having ready money to pay, furnishes with the necessaries of life, and so trucks commodities for work. — — What kind of influence this is like to have upon land, and how this way rents are like to be paid at quarter-day, is easy to apprehend: and it is no wonder to hear every day, of farmers breaking and running away. For, if they cannot receive money for their goods at market, it will be impossible for them to pay their landlord's rent.»<sup>4</sup>

As appears from this passage, Locke took a very gloomy view as to the consequences of the decreasing stock of money. Land-owners, especially, were to suffer from a scarcity of money. A like opinion was expressed by other mercantile writers. The author of the *Britannia Langvens* depicted the course of events as follows: «This consumptive importing trade must be of very fatal consequence in its nature. — — As the national treasure comes to be more and more diminished, the people must generally have less and less, which must cause the price of all home-commodities, and consequently land-rents to fall continually, the home manufactures must be choaked and stifled by importations.

<sup>1</sup> Misselden, *Free Trade*, p. 1.

<sup>2</sup> Hewins, *o. c.*, p. XXVI.

<sup>3</sup> Petty, *A Treatise of Taxes*, Writings, I. p. 34.

<sup>4</sup> Locke, *Considerations*, Essays, p. 574.

so that both the farmers and manufacturers must fling up; the values of their stocks must be contracted, and will be eaten out by rent, wages and other standing charges before they are aware; men cannot provide against misfortunes which have unseen causes; and as home-trade grows worse and worse, industry it self must be tired and foiled, to the great amazement, as well as affliction of the people.»<sup>1</sup> D' Avenant argued in the same vein: »Our gold and silver will be carried off by degrees, rents will fall, the purchase of land will decrease, wool will sink in its price, our stock of shipping will be diminished, farm-houses will go to ruin, industry will decay, and we shall have upon us all the visible marks of a declining people.»<sup>2</sup>

The consequences declared by these writers to follow a substantial decrease in the circulating stock of the nation, are not in themselves to be contradicted. For just as capitalist society would simply fall into pieces, if the mediums of exchange were to be eliminated from economic life, so, evidently, the usual volume of economic activities cannot be satisfactory carried out, if the circulating stock at any time falls short of that amount to which society has once adjusted itself (supposing that money is not in a corresponding degree compensated by credit and banking facilities). In want of a sufficient supply of money, a certain part of the prospective demand for goods or services must become ineffective, as the potential buyer and seller either do not find each other at all, or on doing so are compelled to fall back on the troublesome expedient of barter. The damage brought about, is greater or smaller according to the degree and the duration of such a shortage of money.

The general principle in the mercantile reasoning was thus not wrong. But this is not, after all, the question of primary importance for us; the real question is: Was England dur-

<sup>1</sup> *Britannia Languens*. Early Engl. Tracts, p. 574.

<sup>2</sup> D' Avenant, *An Essay upon the Probable Methods*. Works, II. p. 283.

ing the seventeenth century suffering from actual or potential shortage of money justifying the anxiety of contemporary economists and politicians for attaining a favourable balance of trade and thereby securing a greater supply of the precious metals?

The accuracy of conclusions in the mercantile literature cannot be relied upon. And that for many reasons. For the first, the opinion was not quite unanimous. Thus Mun writes: «Concerning the evill or want of silver, I thinke it hath beene, and is a generall disease of all nations, and so will continue untill the end of the world; for poore and rich complaine they never have enough: — I hope it is but imagination maketh us sicke, when all our parts be sound and strong.»<sup>1</sup> Petty asserts that «it is probable that (some allowance being given for hoarded money) the whole cash of England was then [after the Restoration] about six millions, which I conceive is sufficient to drive the trade of England, not doubting but the rest of his Majesties Dominions have the like means to do the same respectively.»<sup>2</sup> Child has stated his point of view very distinctly: «And if it be doubted we have not money enough in England, besides what I have said in my former treatise as to the encrease of our riches in general, I shall here give further reasons of probability, which are the best that can be expected in this case, to prove that we have now much more money in England than we had twenty years past.»<sup>3</sup> The writer then enumerates several proofs of his case, such as the expansion of trade, the rise of rents, etc., and concludes then his passage as follows: «But — — how comes it to pass that all sorts of men complain so much of the scarcity

<sup>1</sup> Mun, *A Discourse*, p. 38.

<sup>2</sup> Petty, *Political Arithmetick*. Writings, I. p. 310. — Cf. also the following statement: «Nor is money wanting to answer all the ends of a well policied state, notwithstanding the great decreases thereof, which have happened within these twenty years» (*Verbum Sapienti*. Writings, I. p. 113).

<sup>3</sup> Child, *A New Discourse*. Preface.

of money especially in the country? — My answers to this query are, viz 1 This proceeds from the frailty and corruption of human nature, it being natural for men to complain of the present, and commend the times past, so said they of old, 'The former days were better than these;' and I can say in truth, upon my own memory, that men did complain as much of the scarcity of money ever since I knew the world, as they do now; nay, the very same persons that now complain of this, and commend that time.<sup>1</sup>

This passage, as that of Mun's quoted above touches upon a psychological reason why we cannot take the mercantile complaints of scarcity of money at their face value. In almost every country people have from time to time been inclined to attribute all kind of evils to the want of money, e. g. the slackness of trade, falling prices, declining revenue, poverty of the people, want of employment, political discontent, bankruptcy, and panic.<sup>2</sup> The mental habit of bringing every economic straitness back to the outward, and therefore the most apparent cause, the want of money, must have been doubly strong at a time when the value of money was put extraordinarily high. The same reason for the complaints of scarcity of money was referred to also by Sir Dudley North, who wittily derided the common cry for money.<sup>3</sup>

A third reason for doubting the accuracy of mercantile statements lies in the intricacy of the matter itself, as the amount of currency a nation requires depends not alone upon the amount of her trade, but also upon the number and frequency of payments to be made. In the absence of statistical material it must have been difficult for the mercantile writers to get even an approximately correct idea of the effective quantity of money needed by commerce at a certain moment.<sup>4</sup>

<sup>1</sup> Child, *ibidem*.

<sup>2</sup> Cf Jevons, *Money*, p 334.

<sup>3</sup> North, *o c*, p 36.

<sup>4</sup> It may be noted that Petty as well as Locke tried to compute what sum of money was required by the trade of the country. Petty thought

The fact that it is difficult to examine, at this distance of time, the trustworthiness of the opinion of seventeenth century writers as to the presumed scarcity of money, and that, moreover, that view was not shared by all economists, compel us to look away from those subjective creeds and to look for more reliable criteria of the question we are concerned with. The only way this can be done, is to inquire as far as possible into the actual fluctuations in the supply of and the demand for money and into the proportion in which the supply and the demand stood to each other.

Turning first to consider what fluctuations there occurred in the supply of money, there are statistics available throwing light upon the question. The world output of gold and silver in the sixteenth and seventeenth centuries has been computed as follows:<sup>1</sup>

The average annual amount:

	7,160 kg. gold	90,200 kg. silver
1521—1544	7,160 kg. gold	90,200 kg. silver
1545—1560	8,510 » »	311,600 » »
1561—1580	6,840 » »	299,500 » »
1581—1600	7,380 » »	418,900 » »
1601—1620	8,520 » »	422,900 » »
1621—1640	8,300 » »	393,600 » »
1641—1660	8,770 » »	366,300 » »
1661—1680	9,260 » »	337,000 » »
1681—1700	10,765 » »	341,900 » »

that the money sufficient for the nation is as much as will pay half a year's rent for all the lands of England and a quarter's rent of the houseing, for a week's expense of all the people, and about a quarter of the value of all exported commodities (Quantulumcunque. Writings, II. p. 446). Locke estimated that one fiftieth part of the labourer's wages, one fourth part of the landholder's yearly revenue, and one twentieth part of the broker's yearly returns in ready money, will be enough to drive the trade of any country (Considerations. Essays, p. 576). Such inquiries, inspiring as they may be as logical experiments, were bound to fail, as far as their practical use is concerned, and are for us of merely curious interest.

<sup>1</sup> The figures are taken from Soetbeer, Materialien zur Erläuterung der Edelmetallverhältnisse, p. 7.

As appears from these figures, the output of gold did not undergo very substantial changes during this time, while, on the contrary, the supply of silver was more than tripled about the middle of the sixteenth century and continued to rise until the first decades of the seventeenth century. The great event causing this revolution in the output of silver was the discovery of the American silver mines, above all, that of Potosi in 1545. What a part this American silver played, may be seen from the fact that in the period from 1581 to 1600 the mines of Potosi alone produced annually an average of 264,300 kg.<sup>1</sup>

These vast supplies of silver became gradually diffused all over the commercial world. In Europe, Spain and Portugal were first reached by the American stream. Italy, France and Holland were the next to be affected thereby. But England was the last of the West-European countries to share in the new supplies. That did not happen until after the accession to the throne of Queen Elizabeth: in the preceding age it had been impossible, because the balance of an international indebtedness was then unfavourable to England as a result of the coinage-debasement practised by Henry VIII. and his successors. The first sensible effects of the new silver cannot be detected in England till after 1560.<sup>2</sup> But from that time onwards, a favourable balance continued, without much interruption for centuries to come, to pour in vast quantities of gold and silver.

The mint statistics of England give us a relatively trustworthy idea of the extent by which the stock of money was annually increased. It appears that at the end of the fifteenth century the quantity of coined silver came yearly to about 1100 kg., during the reign of Queen Elizabeth, this average figure had risen to 12,000 kg., in the years 1603—49, as high as 24,600, and in 1649—1701, to 26,000 kg.<sup>3</sup> On the basis of these figures, it has been

<sup>1</sup> Soetbeer, *Edelmetall-Produktion*, p. 78

<sup>2</sup> Wiebe, *Zur Geschichte der Preisrevolution*, p. 304

<sup>3</sup> Cf. Wiebe, *o. c.*, p. 313. The stock of gold coin increased relatively even more rapidly than that of silver, for in the Middle Ages only little gold was coined.

estimated that England possessed in the seventeenth century from twenty to thirty times as much money as two hundred years earlier.<sup>1</sup> This great increase much surpassing the rate of increase in the output of the precious metals of the world as a whole, depended partly upon the mighty expansion of England's foreign trade during this period and partly upon the fact, that much hoarded treasure, e.g. those of monasteries, were put into circulation.

A notable feature in this vast increase in the stock of money is the fact that by the middle of the seventeenth century something like a state of equilibrium had been reached in the supplies of money. From that time onwards the absolute quantity of money shows only an inconsiderable increase, in comparison to the rapid increase during the preceding seventy years or so. And if we take into account not the absolute increase of money, but the relative, we find that the total stock of specie in hand had been so swelled that successive additions were much less in proportion. The ratio of the yearly output of gold and silver proves to be as follows: Having been at one per cent from 1493 to 1544, the ratio rose for the years between 1545 and 1600 to 2.02, declining then between 1601 and 1660 to 1.26, and between 1661 and 1700 to 0.79.<sup>2</sup> The proportion in which the annual increase of money in England stood to the existing stock, of course, roughly followed the fluctuations in the output of gold and silver, though here the relative decline only began later and cannot have been so heavy as it was in the output of the precious metals.

The efficiency of the successive increments of money is to be measured not by the absolute but by the relative increase, as the new money had to exert its influence on the stock in existence.<sup>3</sup>

<sup>1</sup> Wiebe, o. c., p. 313.

<sup>2</sup> Wiebe, o. c., p. 282.

<sup>3</sup> Cf. the following statement of Price: "A previous increase in the supplies itself diminishes the relative effects of a subsequent increase. The percentage of the increase declines; and few more treacherous pitfalls await the tyro in statistics than those which lie beneath arguments from percent-

We are therefore entitled to conclude that the supply of money in England was unusually efficient during the last decades of the sixteenth century, but that its efficiency was gradually diminishing during the seventeenth century.

Turning now to examine what fluctuations the demand of money was subject to during the period in question, it is perfectly clear that no statistical facts, however inadequate, are here available. The actual volume of demand can, therefore, be concluded only indirectly and that from the vigour and the direction of economic activities as well as from the extension or the contraction of economic life as a whole.

(1) There existed at the beginning of the sixteenth century a natural demand for money on account of the fact that during the closing centuries of the Middle Ages the supply of money had generally fallen short of the requirements of trade. Commercial intercourse was in that period perplexed by «a real dearth of the precious metals, in a sense that to us is almost unintelligible».<sup>1</sup>

(2) The substitution of money economy for natural economy, gradually progressing during the sixteenth century, and even the seventeenth, created extended demand for the means of exchange.<sup>2</sup>

(3) England's trade and industry was rapidly advancing during these centuries. That may be illustrated by a few characteristic figures: Export of woollen manufactures amounted in 1588 to

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ages, for he should always take account of the amount on which the percentage is reckoned» (Money, p. 86).

<sup>1</sup> Nicholson, The article «Balance of Trade» in Palgrave's Dictionary, I. p. 85.

<sup>2</sup> Sombart points out that barter was practised to some extent until the eighteenth century. According to the Barnabees Journal of Richard Brathwait (1631) the trade of pedlars was in great part based on barter. (Der moderne Kapitalismus, II. p. 517). Here may also be quoted a passage of Child, as follows: «The course of our trade from the encrease of our money is strangely altered within these twenty years, most payments from merchants and shopkeepers being now made with ready money, whereas formerly the course of our general trade ran at three, six, nine, twelve and eighteen months time» (O. c., Preface).

200,000 pieces, but in 1687—88, to 570,770 pieces. The total tonnage of ships leaving English harbours was in 1663 — 142,900, but in 1688 — 285,800, and in 1714 — 448,004.<sup>1</sup> The population of England grew according to King from 3,840,000 in 1500 to 4,620,000 in 1600, and to 5,500,000 in 1700.<sup>2</sup> The growth of population and the increase of trade required, naturally, a substantial increase in the circulating stock. (4) The trade to the East must also be mentioned in this connection, for by it much of the treasure was carried away that was procured from the West. «The nations of the East were willing to give their produce and merchandise in exchange for the precious metals. The mineral wealth of America, in short, furnished the traders of Europe with a commodity which the East was ready to take in unlimited quantities.»<sup>3</sup> (5) Lastly, it must be observed that a part of the precious metals procured from abroad was consumed in the arts and was thus withdrawn from circulation.

When all the different factors referred to above are taken into account, there is no doubt but that the demand for money was steadily growing during the sixteenth and the seventeenth centuries. And it was growing not only absolutely, but considering the rapidly advancing industry and commerce of England, very likely also relatively. That at least seems to have been the case during the latter part of the seventeenth century, a period called by Cunningham «The Era of English Expansion».<sup>4</sup>

We have thus seen that the large supply of money had its counterpart in a large demand for it. Only the development of the supply and the demand did not proceed side by side: the one rose to its height during the sixteenth century and was afterwards relatively in decline; the other grew continuously in vigour and reached its acme during the decades after the Restoration.

<sup>1</sup> The figures are taken from Sombart, o. c., II. pp. 999, 1056.

<sup>2</sup> King, *Natural and Political Observations*, p. 42.

<sup>3</sup> Price, o. c., p. 97.

<sup>4</sup> Cunningham, o. c. *Modern Times*, p. 193.

The question is: What were the consequences of these fluctuations in the supply of and the demand for money for the money market? Was the increase of money in the sixteenth century great enough fully to answer the vigorous demand after the long mediæval dearth of money? And how was the internal relation between supply and demand turning out in the seventeenth century when the supply of money tended to decline relatively and the demand, to increase? No exact answer can be given to these questions at this distance of time. Some light may, however, be thrown upon them by inquiring into the fluctuations to which general prices were subject during the period we are here concerned with. Prices afford the best criteria of the reciprocal effect of the supply of and the demand for money on one another, according to the economic principle: if the supply at any time surpasses the demand, prices tend to rise; if, on the contrary, the demand surpasses the supply, prices tend to fall.

The most reliable figures marking the course of prices during the sixteenth and the seventeenth centuries are, probably, those brought forward by Wiebe in his excellent study: *Zur Geschichte der Preisrevolution des XVI. und XVII. Jahrhunderts*. The figures showing changes which were occurring in the cost of subsistence, are quoted below, as best serving our purpose:

1451—1500:	100
1551—1570:	167
1571—1602:	242
1603—1652:	360
1653—1702:	399 <sup>1</sup>

As appears from these figures, the time from the first influx of American silver to the end of the seventeenth century falls into

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<sup>1</sup> Wiebe, o. c., p. 179. As appears from these figures, a considerable rise in prices had already taken place before 1570, the time when the American silver began to pour in. This rise was chiefly effected by the debasement of English money.

two distinct periods: From 1570 to the middle of the seventeenth century the cost of subsistence rose by more than one hundred per cent, while during the latter part of the seventeenth century the rise was relatively inconsiderable, amounting only to about ten per cent.

As to the former period, the period of rapid rise of prices, there seems to be no question but that the heavy inflation was chiefly caused by a falling value of silver. The close connection in which the increasing supply of silver and the rising prices stood to each other, appears in the clearest way from the fact that prices began to rise in European countries in the same order in which American silver reached them;<sup>1</sup> and that, on the other hand, the period of rapid rise of prices came to an end, when the annual supply of money was no longer growing in the same proportion as before.

This causal connection between the silver influx and the inflation was also early recognized by contemporary economists. Bodin, in France, pointed as early as about 1570 to the internal dependency of the rising prices on the increasing stock of money; and in England, W. S., the publisher of Hale's *Discourse of the Common-weal*, did the same a few years later. Afterwards, it came to be a generally accepted view that the inflation had been caused by the great influx of the precious metals. Adam Smith e. g. saw in the American silver supply «the sole cause of this diminution in the value of silver in proportion to that of corn». And according to his assertion «it is accounted for accordingly in the same manner by every body; and there never has been any dispute either about the fact, or about the cause of it».<sup>2</sup>

There can, thus, be no doubt that the influx of the precious metals from America caused a very serious fall in the value of silver and a corresponding rise of prices in England. And we may

<sup>1</sup> Leslie, *Essays in Political Economy*, p. 270.

<sup>2</sup> Adam Smith, *o. c.*, I. p. 191. Smith's statement goes too far, there being also other factors effecting a rise of prices, as will be seen below.

therefore denote the period of rapid rise of prices as a time when the demand for money was greatly outstripped by the supply of it <sup>1</sup>

The case becomes somewhat different when the latter part of the seventeenth century is considered. During this period, as we have seen, the supply of money was, on the whole, relatively decreasing, while the demand tended steadily to increase. Thereby of course, the large margin that had existed between the supply of and the demand for money in the former period, was growing narrower and narrower <sup>2</sup> Now, whether this margin actually disappeared at any time, so that supply and demand were brought into equilibrium, or whether the supply of money was, perhaps, occasionally even outstripped by the greatly growing demand for it, cannot be ascertained with any accuracy. Such a possibility must at any rate be taken into account in discussing the economic problems of the time <sup>3</sup>

This at least is certain. The slight rise that occurred in prices during this period cannot be used to prove the case that the supply of money was still surpassing the demand for money, for it is not difficult

<sup>1</sup> To this conclusion must, however, be made the express reservation that it holds only as to the general tendency of development, as allowance has to be made for temporal and regional exceptions. This reservation is not without importance as will be seen later

<sup>2</sup> The influence of credit, that was beginning its great expansion during this period, must naturally also be taken into account, when the situation in the money market is considered. The role of credit seems, however, to have remained relatively insignificant until the last decade of the seventeenth century when the modern epoch of credit system was being inaugurated. About the same time the money market was eased also by the output of the precious metals beginning to increase anew

<sup>3</sup> We cannot agree with Wiebe's conclusion that even without being able to proceed on the firm ground of statistics, one comes, having regard to all factors of any importance, to a well established conclusion; which can only be that during the sixteenth and the seventeenth centuries the production of the precious metals increased much more rapidly than the demand for them, the stock of money, much more than the need for money» (O c, p. 315)

to point to other agents by which such a rise could have been effected, if there actually was any rise of general prices at all.<sup>1</sup> Thus, the rapid growth of population, especially the expansion of cities, must have brought about some rise in the cost of living, as is always the case, if an increased demand for the necessities of life cannot be met by supplies procured from abroad at a cheap rate. But apart from this factor, equally effective at all times, there were some special factors tending to raise the price of land products. It is, for the first, to be noticed that England suffered during the seventeenth century from many bad harvests and that the scarcity of corn was bound to raise its price.<sup>2</sup> Further, we cannot leave out of account the influence upon prices exercised by the economic policy of the day which fostered the interest of the agricultural producer; it seems highly probable that the price of cereals was thereby raised more rapidly than would have been the case had there been only the fall in the value of silver; notice must be taken also of the rise in corn prices that was effected by the civil war. Here we may appeal to the authority of Adam Smith. According to him there happened in the period 1637—1700 two events which must have produced a much greater scarcity of corn than what the course of the seasons would otherwise have occasioned, and which, therefore, without supposing any further reduction in the value of silver, will much more than account for this very small enhancement of price. The first of these events was the civil war, which, by discouraging tillage and interrupting commerce, must have raised the price of corn much above what the course of the seasons would otherwise have occasioned. — — — The second event was the bounty upon the exportation of corn, granted in 1688. — — During this short period [1688—1700] its only effect must have been, by encouraging the exportation of the surplus produce of every year,

<sup>1</sup> Tooke & Newmarch, *A History of Prices*, VI. p. 410: "After the culminating point of 1650, prices somewhat declined during the sixty years to 1700."

<sup>2</sup> Rogers, *History of Agricultural Prices*, V. p. 783.

and thereby hindering the abundance of one year from compensating the scarcity of another, to raise the price in the home-market<sup>1</sup>

So far we have paid attention only to the general lines of development. Here we might stop without troubling ourselves any further about details, in the conviction that the picture we have thus got, gives a fairly satisfactory answer to the question we were inquiring into, at least, we might do so, were the question at issue one of modern times. But that it is not, we are here concerned with a question belonging to the epoch of early capitalism, and that greatly changes the situation. For in that age temporal and local deviations from general lines of development played a much more important part than has later been the case, it would, therefore, mean a fatal neglect if an inquirer into the historical conditions of the mercantile age were content only with clearing up the main lines of development.

A keen authority on the history of early capitalism has pointed out in an instructive passage the great fluctuations which that age was subject to. "When one first sets out to examine the fluctuations in the economic life of the early epoch of capitalism, one gets the impression of a total irregularity, a total want of rhythm. Favourable and unfavourable periods seem to change at will from place to place, from trade to trade, from year to year. This local and temporal pell-mell of different tendencies appears almost as the chief characteristic of the market conditions of the centuries in question. The fluctuations in the figures of production, in the figures of export and import, in the prices from year to year bewilders at first anybody turning to study the course of economic life during early capitalism."<sup>2</sup>

The distribution of money was unsatisfactory: the normal course of economic life was often harassed by the fact that parts of the country or particular towns might be overtaken by a sudden

<sup>1</sup> Adam Smith, *o.c.*, I p. 193

<sup>2</sup> Sombart, *o.c.*, II p. 225-

scarcity of money at a time when an equal scarcity was not felt in other parts of the country. Such a local scarcity of money might arise from various causes. There might, for instance, happen an abrupt interruption in the normal supply of money or of the precious metals. We know from letters of business-men that in the sixteenth and the seventeenth centuries trade conditions were greatly affected by the amount of gold and silver that was annually brought from America; that the profits of the fairs in Portobello and Vera Cruz depended on the quantities of the precious metals that were brought forward by producers of gold and silver; that a severe crisis was inevitable, if the Spanish silver fleet happened to perish.<sup>1</sup> Shortage of money could also arise, if much money was suddenly carried away from some part of the country to another. Thus Child complained that the country was depleted of money by «the late practice of bringing tax-money in waggons to London».<sup>2</sup> According to the same author, scarcity used also to proceed from banking, «for the trade of bankers being only in London, doth very much drain the ready money from all other parts of the kingdom».<sup>3</sup>

The fact that the normal course of economic life was much more dependent upon a steady supply of the precious metals than at present and that an accidental interruption would call forth fateful consequences, must naturally be seen against the background of an undeveloped credit system. After the introduction of paper currency and the widening of the net of modern credit services all over the country and, indeed, over the whole world, such local shortages of money which the mercantile age was witnessing, have become practical impossibilities.

But a reference to these local straitnesses does not exhaust the subject of temporal fluctuations in the supply of money; for from time to time a scarcity of money might make itself felt equally

<sup>1</sup> Cf. Sombart, o. c., II. p. 224—5.

<sup>2</sup> Cf. above, p. 169.

<sup>3</sup> Child, o. c., p. 49.

in all parts of the country. Thus even during the period that has been characterized above as a time of an excessive supply of money, there used to occur intervals of real shortage of the mediums of exchange. In the years 1621—22, for example, England was suffering from a severe crisis. »Every testimony points to the fact that the crisis was as purely a monetary or currency crisis, as later crises have been distinguishedly credit crises. Between 1613 and 1621 hardly any silver monies were coined in the English Mint, for example, between 1617 and 1620 the total silver coinage was only £ 1070, whereas in the four succeeding years the silver coinage at the Tower Mint amounted to £ 205,500.»<sup>1</sup>

The same authority on the monetary history of England explains the *causa agens* of this phenomenon as follows: »The cause, opportunity, channel, or machinery of the drain was the incessantly shifting, badly tariffed, imperfectly understood bimetallic system of the times; and the crisis of 1622 was only the most patent expression of its malignant action.»<sup>2</sup> The bimetallic system was exposed to the consequences of the economic law (Gresham's Law) according to which bad money drives out good, but good money cannot drive out bad. The conditions were particularly favourable for the operation of this law. The vast silver supplies from America caused a change in the relative value of silver and gold, the value being gradually changing in the degree as the new silver came to be spread to successive countries. But the governments were not able to cope with the situation thus created: the Mint ratios of gold and silver were inelastic and did not follow quickly enough the changed ratio on the market, so that one of the precious metals became, necessarily, overrated, the other, underrated. That was the exchanger's opportunity and it effected the disappearance of one or the other of the precious metals from circulation and its export abroad where a higher price could be obtained for it. In addition to the bimetallic system, much

<sup>1</sup> Shaw, *The History of Currency*, p. 144

<sup>2</sup> Shaw, *o. c.*, p. 145.

of the trouble was due to the badness of the coins and to clipping, which led to the good coins being melted down or smuggled abroad; the money shortage was, thus, often really a shortage of good coins.

These were the causes not only of the severe crisis referred to above, but of many other crises by which the monetary system of the different countries was brought into confusion. In France a most acute crisis occurred in 1570; in Germany, in 1622. The best known of all is that which befell England in the last decade of the seventeenth century and which caused Locke to write his famous essays on the question of recoinage.

Now, as we have, at last, arrived at the end of our investigation into the internal relation of the supply of and the demand for money during the seventeenth century, we stand once more before the question: Was England suffering during the seventeenth century from actual or potential shortage of money justifying the anxiety for attaining a favourable balance of trade so as to secure a greater supply of the precious metals?

It has appeared from the course of our exposition, that in one sense the former part of this question may be answered in the affirmative: there is no doubt that the economic intercourse of the country was periodically straitened and perplexed for the want of convenient mediums of exchange. So far, therefore, as mercantile writers were referring in their clamour of «scarcity of money» to such occasional straitnesses, they had no imaginary inconvenience in their minds.<sup>1</sup> But it is evident, on the other

<sup>1</sup> It is very interesting, indeed, to notice that complaints of a scarcity of money were during the economic crisis in 1621 and 1622 at their loudest. Cf. the passages referred to above, p. p. 77—9. The following passage, written about the same time, may be quoted as a further specimen: «England was never generally so poor since I was born as it is at this present; inasmuch that all complain they cannot receive their rents. Yet is there plenty of all things but money, which is so scant, that country people offer corn and cattle, or whatsoever they have else, in lieu of rent — but bring no money.» (Tooke & Newmarch, *o. c.*, I. p. 23).

hand, that such shortages of money did not justify any special attention to the balance of trade. That was to call at the wrong address. For as has been pointed out, the fault lay, in these cases, not in an unfavourable balance of trade — as a matter of fact, the balance of trade seems to have continued favourable throughout the seventeenth century — but in an undeveloped credit system, the badness of the coins and the incessantly shifting, badly tarified, imperfectly understood bimetallic system of the times. Relief was to be brought about only by removing these primary causes. And in these respects, a fundamental change happened, indeed, in the last decade of the seventeenth century, with the foundation of the Bank of England and the Recoinage.

So much for the temporary scarcity of money arising from defects in the economic structure of early capitalism. That question has, as we have seen, nothing to do with the internal relation between the supply of and the demand for money in general. As to these general lines of supply and demand, it has become evident that from the first influx of American silver until about the middle of the seventeenth century, the demand for money was greatly surpassed by the supply of it. The case is more complicated as far as the latter part of the seventeenth century is concerned. It seems to be certain that the money market was then more straitened than before; but whether there actually was at any time prevailing what may be characterized as absolute shortage of money, is questionable, though it is not impossible.

But there is another matter, more important for the real understanding of the mercantile anxiety for a steady supply of money than the question whether England actually was suffering from scarcity of money: it is this; as long as effective credit facilities were wanting, and especially as long as paper currency had not been introduced, there existed permanently, even at the time of the largest supply of money, a potential scarcity of money. A stoppage or even a substantial slackening in the supply of the precious metals would have, by the steadily growing demand for money, changed, sooner or later, the imminent danger of a scarcity

into a painful reality. It is against this background that the mercantile psychology must be seen and that the anxiety for a steady supply of money only becomes fully intelligible for us, who are living in greatly changed conditions.

## 4.

We have seen above that the precious metals were during a long period, roughly from 1560 to 1650, pouring in into England in so great abundance that the demand for money was substantially outstripped by the supply of it. On the basis of this phenomenon we then concluded that England could not, possibly, suffer during this period from a general scarcity of money. But the question of the excessive supply of money may also be discussed from another, and not less important standpoint, and that is: What were the positive effects of the successive increments of money upon economic life and how was the theory of the balance of trade thereby affected?

Students of mercantilism have, in general, paid insufficient attention to the economic consequences of the considerable influx of American silver. The matter has mostly been dismissed with the superficial treatment which Adam Smith gave to it. According to him, the increase of the precious metals afforded «a real conveniency, though surely a very trifling one», as gold and silver plate was thereby rendered more plentiful. But, he added, this conveniency was more or less outweighed by the inconveniency brought about thereby: «The cheapness of gold and silver renders those metals rather less fit for the purposes of money than they were before. In order to make the same purchases, we must load ourselves with a greater quantity of them, and carry about a shilling in our pocket where a groat would have done before»<sup>1</sup> That is all that Adam Smith had to say of the question. A closer inquiry into it leads, however, to very different conclusions.

<sup>1</sup> Adam Smith, o. c., I. p. 414.

In submitting the question of what influence the increase of money possibly exerted upon economic life, to a closer examination, attention may first be given to the fact, that the transition from natural economy to money economy, begun in the Middle Ages, continued, as has been pointed out, through the sixteenth and seventeenth centuries. It is hardly conceivable that, but for extraordinary supplies of the precious metals, this transformation of natural economy into money exchange and money payments would have taken place so thoroughly and in so relatively short a time, because that would have been possible only by a continual decline of general prices, a larger number of transactions being effected by an unchanged, or nearly unchanged, stock of specie. This view has been expounded by Taussig as follows. «In communities so tied by custom as were those of Europe at the time, this process could have taken place, if at all, only with the greatest difficulty. The mere absence of a supply of specie, adequate for carrying on a larger volume of transactions without a great lowering of prices, was an almost insuperable obstacle to the extension of monetary exchanges. The new specie vastly facilitated the transition. It supplied a lubricator, so to speak, for the smooth and rapid working of the more effective machinery of exchange. It penetrated quickly and easily into all western Europe, and made possible a much wider adoption of money payments, not only without the distress, real or fancied, that lower prices bring, but, through the abundance of the supply, with markedly higher prices. Thereby the division of labor was extended into many new industrial fields, and the ease of exchange was made greater in many fields where such a division already was practised. A real advance in the efficacy of production was secured and a real gain in welfare»<sup>1</sup>

The new supplies of money came, thus, to be a powerful spur to the expansion of money economy in the conditions prevailing during the first centuries of modern times, when society was at the point

<sup>1</sup> Taussig, Principles of Economics, I pp 248—9

of transition from feudalism into capitalism. Had the conditions been different, had economic development been yet unripe for the introduction of money economy or equally had money economy been fully established, then this peculiar effect of the new supplies would of course have been impossible.

But that was not the only way in which the increase of the stock of money affected the economic progress of the nation.<sup>1</sup> In order to understand this, we have to consider that a heavy expansion in the supply of money calls forth, in all conditions, changes in the normal course of economic life, as the new supplies cannot be mechanically dispersed all over the country; the distribution can occur only in rotation and along various channels, so that the supplies become ultimately divided among the members of the nation in a way not proportional to the division of the old stock of money. It is therefore of the greatest importance for us to examine along what channels the new supplies of money were, in the case we are at present concerned with, thrown out into circulation and how they ultimately came to be dispersed among the individuals or groups of individuals the nation consisted of.

We have then to start in our investigation from the very point where the new supplies made their first appearance in the economic life of England. That is, as England had no considerable mines of her own, we have to start from the individuals who brought the new specie from foreign countries. These individuals were, of course, as a rule merchants carrying on export trade with countries abounding in gold and silver, above all with Spain and Portugal. During the period of the continual influx of silver from America into Europe, these merchants' commercial dealings turned out to be extraordinarily advantageous, since, on account of the greater abundance of the precious metals in the selling market, they were able to get a higher price than they had been expecting and thus

<sup>1</sup> It may be noticed that T a u s s i g denies that the increase of money in any other way favourably affected the course of economic life than that referred to above (O. c., I. p. 249).

to secure for themselves a windfall profit upon which they had not calculated. On the home market, this profit represented freshly created purchasing power. And to the degree that it actually was thrown out into circulation as money, and was not anew exported abroad, or used for industrial purposes, or hoarded, it operated as an effective demand for commodities and services.

Proceeding now to consider how the home market of commodities and services was affected by the new money thrown out into circulation, we have first to examine what kind of commodities and services that money primarily was being devoted to. We have to ask: Were the men, in whose hands that freshly created purchasing power first was concentrated, or who in the course of trade gained a share of it, spending it in an unproductive way? Or were, perhaps, the economic and political conditions of the country such that a productive use of the purchasing power was impossible? If the one or the other of these were the case, the larger supply of the precious metals did not, naturally, promote the productive expansion of economic life.<sup>1</sup>

But that was not the case in England. That is manifest enough. In England political and economic conditions were particularly favourable for economic progress. And there the first receivers of American silver were, as we have seen, no spendthrifts, but thrifty and industrious merchants. On that account there need be no doubt but that these active and provident men, in order

<sup>1</sup> That was, indeed, the case in Spain. There the first possessors of American silver were mostly adventurers, people least inclined to engage upon production of new economic values. And in the cases, where an extension of productive activity actually was attempted, the design was frustrated by the wretched social and political conditions. The only lasting effect of the silver influx in Spain was an inflation of prices and a general demoralization. And ultimately the country was depleted not only of most of its industry, but also of its stock of the precious metals, as in want of sufficient supply of home products, commodities were to a large extent purchased from abroad. Of this course of events a most instructive description may be found in M. J. Bonn's book: *Spaniens Niedergang während der Preisrevolution des 16. Jahrhunderts.*

to earn a greater profit by their future dealings, were more disposed to extend their commercial activities than to waste the profits they had already secured upon unproductive commodities and services.

To this trend towards increasing production, the foundation of which lay in the character of the commercial classes of England, we must add the fact that, according to a general economic law, a concentration of purchasing power tends to further the capitalization of national income. This economic law may be stated as follows: It is easier to save from a larger than from a smaller income. If one man has £ 5,000 a year and another man has £ 500, and both of them are of exactly the same disposition as regards thrift, the first will save, not only absolutely but also relatively more than the second, because a person's need of the necessities and conveniences of life do not generally grow in proportion with the amount of the purchasing power at his disposal.

The first receivers of the increasing supplies of money were thus not only induced to extend their commercial activities but they had also the power of diverting a relatively greater part of their earnings into channels of production than before. They spent, consequently, a larger share of income on ordering new ships, on hiring more seamen, on procuring more commodities for which countries supplying the precious metals, felt a demand, and so on. In this way the new-come money began its circulation in the country.

Here it must be taken into account, that the amount of commodities and services procurable in the market, was, of course, adapted to the customary volume of effective demand. The first consequence of the expansion of the purchasing power called forth by the heavy influx of gold and silver, was therefore a growing competition for commodities and services actually existing in the market. The men who had come into the possession of the extended purchasing power, were able to enlarge their share of commodities and services merely by offering so much higher prices that a sufficient number of the weakest demanders were knocked

out from the market. The suppliers of the commodities and services in demand, such as farmers, merchants, shipbuilders, etc came thereby in their turn to profit by the higher prices offered to them and were induced to extend their productive activity, in order to meet the growing demand. So the stronger demand, created by the new supplies of money, was bound to spread further district by district and trade by trade. The successive groups of producers affected thereby, were able and very probably, in general, also inclined to enlarge the capital stock of their respective trades.

There seems then to be no doubt but the increase in the circulating stock of money, while concentrating much purchasing power in relatively few hands and, thereby rendering a greater accumulation of trading capital possible, afforded the economic life of England a mighty and an immediate encouragement. But that was not all, for if we inquire into the price movements called forth by the expanding stock of money, we shall find that they, too, were not without importance for the economic progress of the country.

As we have seen above, the increase in the supply of money tended to raise the prices of such commodities and services towards which the growing demand came to be directed. That was the case because the supply of commodities and services actually procurable in the market was falling short of the increasing requirements of trade. But it was also pointed out that this tendency of prices to rise could not but stimulate producers profiting thereby, to increased activity directed towards meeting the larger demand, if possible, by a correspondingly increased production. Such an extension of production exerted, of course, a retarding influence on the advancing prices, it being obvious that as far as the producers actually managed to produce commodities in an increased quantity, the prices were by the larger supply of commodities thus created pressed back towards their old level. The first and primary tendency towards rising prices was thus counteracted by a neutralizing current.

What the ultimate result was to be of these different price tendencies of which one was pressing upwards, the other, downwards, depended naturally on their relative strength, i. e. partially on the ability of society to procure commodities and services in continually increasing quantities, and partially on the size and permanence of the supply of the precious metals. As to the ability of society to procure commodities in continually growing quantities, it is of importance to notice that this ability always greatly varies in different branches of production. There are commodities which can be multiplied in almost any quantity without much loss of time or increased cost of production. Nay, there are even cases where production, if carried on on a larger scale than before, may lead to a cheaper system of production, by making possible technical improvements and a more effective division of labour. But there are, on the other hand, also cases where an increased supply of products can be effected, if at all, only by a long and difficult process and, consequently, at greatly increased cost. As the possibility of extended production thus substantially differs from trade to trade, the result of a general extension of production must always be that prices become differentiated.

The lines along which such a differentiation of prices takes place, are determined by the economic law called the law of increasing and diminishing return. Marshall describes the operation of this law as follows: "While the part which nature plays in production shows a tendency to diminishing return, the part which man plays shows a tendency to increasing return. The law of increasing return may be worded thus: — An increase of labour and capital leads generally to improved organization, which increases the efficiency of the work of labour and capital. Therefore in those industries which are not engaged in raising raw produce an increase of labour and capital generally gives a return increased more than in proportion; and further this improved organization tends to diminish or even override any increased resistance which nature may offer to raising increased amounts of raw produce. — — The two tendencies

towards increasing and diminishing return press constantly against one another.<sup>1</sup>

We may then conclude that, by virtue of the law of increasing and diminishing return, the price movements called forth by the influx of American silver, must have brought the prices of raw products and of agricultural products to a higher level than those in the spheres of economic activity, where the cost of production depended chiefly on human labour. What the price level of different commodities ultimately was to be, depended, however, as we already said, not only on the inherent ability of particular trades to procure commodities in an increased quantity, but also on the size and permanence of the supply of the precious metals.<sup>2</sup> If these supplies had not been too large to be easily absorbed by the augmented demand arising from the expanding volume of business, no inflation of general prices could have taken place. But that was, indeed, not the case in England during the sixteenth and the seventeenth centuries, as has been demonstrated in the course of this study. The silver supply was so great and it continued through so long a period that, in spite of the favourable conditions for an expansion of trade and industry, a considerable rise in the level of general prices was brought about.

An inflation of prices carries always with it far-reaching consequences for the course of economic life. The increase of the general price level affects different classes unequally, transferring

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<sup>1</sup> Marshall, *Principles*, pp. 318—9.

<sup>2</sup> Here it may be noted that in the period of early capitalism, prices were more sensitive to an increase in the supply of the precious metals than at the present day, when «the connection between the metals and prices is at the best indirect and remote, and is continually becoming more complex and obscure» (Price, *o. c.*, p. 152). The changed situation is a consequence of the later elaboration of credit and banking, whereby it has become easier to adjust the circulating stock to the volume of trade. Thus, e. g. in the case of an excessive supply of gold and silver, paper and credit substitutes for the metals may be easily contracted to an amount better accommodating the mediums of exchange.

wealth from one to another and bestowing affluence here and embarrassment there. And if we enquire on what special lines such a redistribution of wealth generally takes place, we shall find that those persons, whose incomes are fixed, and whose expenditure is variable, will profit by a fall, and lose by a rise of prices; and those whose expenditure is rigid, and income flexible, will reap advantage from a rise, and sustain loss by a fall in prices.<sup>1</sup>

Now, those persons whose expenditure was rigid, and income flexible were persons belonging to classes carrying on active production, such as farmers, merchants and manufacturers. Cunningham has distinctly stated in the following passage how these groups of people were able to raise their income in proportion to the general rise of prices during the sixteenth and seventeenth centuries: «To whatever extent the fall of silver and the rise of general prices may have occurred there can be no doubt about the nature of its influence on society. Merchants and moneyed men would be able to recoup themselves at once by selling the goods they bought dear, at still higher rates. — The landed gentry would pass through a time when their circumstances were severely strained; but, on changes of tenancy, or when leases fell in, they would be able to obtain increased fines, or to raise their rents. In their circumstances, and with the general agricultural progress of the time, their troubles would only be temporary, and were probably over in the latter part of the reign [of Queen Elizabeth].»<sup>2</sup>

Those persons again whose incomes were fixed, and whose expenditure was variable and who therefore lost by the general rise of prices, were above all those belonging to the wages and salaried classes. These classes have always been injured by an inflation of general prices; Taussig has stated the fact as follows: «That wages go up more slowly than prices is one of the best-attested facts in economic history. It holds good of almost

<sup>1</sup> Price, o. c., p. 54.

<sup>2</sup> Cunningham, o. c. Modern Times, p. 169.

all sorts of hired persons, — not only manual laborers, but clerks, overseers, teachers, salaried officials. It is due mainly to the force of custom, which is especially strong as to wages; and it is strengthened often by the lack of bargaining power among laborers. It is connected with many peculiarities in the dealings between employers and employees, and especially with the position of the employer as feeling the brunt of any industrial change. Of the fact can be no question; when prices rise, the wages of hired workers do not rise as fast.»<sup>1</sup>

Of the fact there can, indeed, be no question. In the period of the heavy influx of American silver, an effective rise of wages was greatly checked by *vis inertiae* of custom as well as by the lack of bargaining power among labourers. Cunnigham has described the situation of labourers as follows: »In so far as wages were settled by competition, there would be great obstacles in the way of securing a rise; the practical restrictions on freedom of movement, which were laid down by the Act of Artificers and the Poor Law System, would seriously interfere with the fluidity of labour, and the consequent freedom for the

<sup>1</sup> Taussig, *o. c.*, I. p. 304. Price likewise asserts that »it is a well-attested fact of economic experience that prices change with more rapidity than wages» (*O. c.*, p. 57). So it has, indeed, been hitherto, but it should be noticed that in quite recent years the situation has been partially reversed. J. M. Keynes has pointed out these recent experiences as follows: »It is an orthodox commonplace of economic text-books that wages tend to lag behind prices and that consequently the real earnings of the wage-earner are, at least temporarily, diminished during a period of rising prices. This has often been true in the past, and may be true even now of certain classes of labour which are ill-placed or ill-organized for improving their position. But in Great-Britain, at any rate, some of the most important categories of labour were able to take advantage of the situation not only to obtain money wages equivalent in purchasing power to what they had before, but to secure a real improvement, to combine this with a diminution in their hours of work (and, so far, of the work done), and to accomplish this at a time when the total wealth of the community as a whole suffered decrease» (*The Consequences to Society of Changes in the Value of Money. »Reconstruction in Europe*, p. 328. *The Manchester Guardian Commercial*, 1922).

individual to bargain; while the combination of labourers would not have been tolerated. The man, who was solely dependent on his earnings, was in a position of great economic weakness; and we hear, at times, of starvation rates paid to weavers by the employers. In so far as the machinery for assessing wages failed to secure adequate increase in the labourers' income, he would have little prospect of obtaining a rise.<sup>1</sup>

In what degree labour actually was injured by the inflation of prices, can, of course, be only very roughly estimated at this distance of time. The following figures based on computations made by Wiebe, give, however, some idea of the state of things.

There occurred in the wages of unskilled labour the following fluctuations:

1551—1570:	100
1571—1602:	127
1603—1652:	160
1653—1702:	202.

During the same period the cost of subsistence rose as appears from the following figures:

1551—1570:	100
1571—1602:	147
1603—1652:	218
1653—1702:	242

These figures demonstrate that though the wages of unskilled labour rose very substantially indeed they did not rise in proportion to the prices of the necessities of life. The purchasing power of the wages of unskilled labour were thus considerably decreased; the scale of this relative decrease appears from the following figures showing the purchasing power of these wages:

1551—1570:	100
1571—1602:	88

<sup>1</sup> Cunningham, o. c. *Modern Times*, pp. 169—70.

1603—1652 71

1653—1702 84

The wages of other groups of labour were, of course, fluctuating in very much the same way as those of unskilled labour.

To sum up the case. The heavy inflation of prices, occurring in England during the sixteenth and seventeenth centuries, effected a substantial reduction in the purchasing power of wages and salaries, while classes carrying on active production were able to recoup themselves by selling their products at higher rates. But this meant that, since the classes of independent producers were receiving a larger share of the national income than before, the process of capitalization was accelerated.

The results of our inquiry into the effects arising from the American silver flow, may be summed up as follows. The increase in the circulating stock was of the very greatest importance for the economic progress of England and that for many reasons. First, it was occurring at a time when society was in the stage of transition from natural economy to money economy, this process of transformation was undoubtedly considerably accelerated by the large increase in the stock of means of exchange. Further, the influx of money effected a new division of the national income in favour of classes carrying on active production. This result was called forth partially directly, by the new-come money's being concentrated in the hands of the producing classes, and partially indirectly, by the fact that the price-inflation brought about by the sudden expansion of the circulating stock of the country was to the benefit of these same classes.

<sup>2</sup> Wiebe, *o. c.*, p. 179. It must be remembered that no near approach to accurate estimates in regard to the purchasing power of wages even in our own time is attainable and of the numerous questions, which arise in regard to early entries relating to wages, only a very few can be answered even approximately (Marshall, *Industry and Trade*, p. 208, note 1).

But to all this there was added one factor more that must not be left out of account: «the powerful influence of imagination as an economic factor.»<sup>1</sup> It is not difficult to realize how the rapid expansion of economic life and the big profits accruing from the increase of the precious metals and falling into the lap of people engaged in trade and commerce kindled speculative imagination and raised the desire for gold and silver. Such competition and speculative spirit could not, in ordinary cases, but lead to productive enterprise, as in England new supplies of the precious metals were to be procured only by the extension of trade and industry.

Before closing, it must be noted that the consequences of the heavy supply of money, were, by no means, altogether beneficial. Its drawbacks were, however, of less importance than its advantages. The lowering of the purchasing power of wages, especially, was bound to create distress among labouring classes. This social injustice, in itself bad enough, seems, however, to have been outweighed to a considerable extent by the fact that during the long boom period all hands found generally plenty of employment. As another undesirable consequence of the inflation the fiscal difficulties of the state may be mentioned. The land was at that time the principal source from which taxation was obtained; but this sort of income of the Crown was inelastic, as the tenths and fifteenths, and general subsidies, had alike become fixed payments.<sup>2</sup> But here, too, it must be taken into consideration that any temporal loss or straitness of the Government was, in the long run, amply compensated by the steady growth of English industry and commerce, whence new sources of revenue were arising.

<sup>1</sup> Price, o. c., p. 46.

<sup>2</sup> According to Cunningham the fiscal difficulties of the Stuarts caused by the inflation, were of far-reaching political consequences: «It is practically certain that the constitutional crisis of the seventeenth century, and the parliamentary disputes which led to the Civil War, were greatly embittered by the fall in the value of silver and the consequent poverty of the Crown» (O. c. Modern Times, p. 170).

All things considered, there seems to be good reason for agreeing with the assertion that «we have the fullest warrant for concluding, that any partial inconvenience that might ensue from the effect of the American supplies of the sixteenth century in raising prices, was compensated and repaid a hundred fold by the activity, the expansion, and vigour which they impressed, for more than one generation, upon every enterprise, and every art which dignifies human life or increases human happiness». <sup>1</sup>

It is now time to return to the question we started from: How was the theory of the balance of trade affected by the great supply of money? In answering this question, let us for a moment consider the position of the mercantile writer. Daily experience demonstrated to anyone living at the time of the heavy supply of money, how trades or districts particularly affected by the increase of circulating stock, were displaying a life and vigour unknown before; how enterprising men large sums of money being concentrated in their hands, were induced to enlarge and intensify their demand for commodities and services and how this led to an extended production, etc.

Considering this position of the mercantile observer,<sup>2</sup> it is no great step to bring the two phenomena into causal connection, viz. the part that money actually played in the conditions of early capitalism. on the one hand, and the peculiar importance attributed to money by mercantile writers, on the other. For just as the effects arising from the great supplies of money were nourishing

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<sup>1</sup> Tooke & Newmarch, o. c., VI. p. 414. — Here may also be referred to the view held by Price and running as follows: «If the lethargy of ages was already giving way before the influence of a variety of causes, and the old order was breaking up of itself, it can hardly be doubted that the fresh supplies of the precious metals, partly by firing the ambitions of men with rumours of the wealth of the newly-discovered world, partly by encouraging and developing the trade to the East, partly by assisting and stimulating the legitimate growth of commerce, contributed no insignificant element to the movement of affairs» (O. c., p. 97).

the imagination of practical men and spurring them to extended enterprise, so they could not but induce people, reflecting on the occurrences of the times, to speculations on phenomena of economic life and impress upon the views held by them a mark of their own. There is, indeed, a striking parallelism between the two developments: the services actually rendered by money to the society of early capitalism and the importance attributed to money by the mercantile age. Money did not only operate, as has been sufficiently demonstrated above, as a passive medium of exchange, but acted simultaneously as one of the dynamic forces of the time accelerating the pace of economic progress. And in the mercantile literature, either of the time when the heavy increments of money actually were taking place, or of a successive time continuing the tradition of earlier economists, just this dynamic character of money was given the greatest emphasis. We need only once more call to mind mercantile assertions of the importance of money, referred to above, such as: money drives trade; money creates trade; money breeds manufactures; or, trade brings in the stock; this stock, well and industriously managed, betters land and brings more product of all kind for exportation; the returns of which growth and product are to make a country gainers in the balance.

This connection between economic life and mercantile theory, though in itself so manifest, does not mean, however, that the particular lines on which the promotion of economic life actually was effected by money, would also have been clearly present to the minds of mercantile economists. That was, indeed, so far from being the case that mercantile literature offers, save general assertions such as those quoted above, exceedingly little material in this respect.<sup>1</sup>

<sup>1</sup> The fact that money was thought a powerful stimulus to trade, while the lines on which it promoted economic activities were not clearly present to, and the limitations of its effects only dimly understood by mercantile writers, induced many of them to expound fantastic theories when they came to discuss the possibilities of paper issues. The best known of these 'inflationists' is John Law; he thought that 'as this addition to the money

Only the most apparent movement arising from the increase of money and working for economic progress, the tendency towards rising prices, was clearly noticed by many mercantile writers. In *Mun* we find e.g. a passage as follows: «As the treasure which is brought into the realm by the ballance of our forraign trade is that money which onely abide with us, and by which we are enriched: so by this plenty of money thus gotten (and no otherwise) do our lands improve. For when the merchant hath a good dispatch beyond the seas for his cloth and other wares, he doth presently return to buy up the greater quantity, which raiseth the price of our woolls and other commodities, and consequently doth improve the landlords rents as the leases expire daily: And also by this means money being gained, and brought more abundantly into the kingdom, it doth enable many men to buy lands, which will make them the dearer.»<sup>1</sup>

Thus, according to *Mun* the trade of England was benefited by the rise of prices due to the increased supply of money. It is especially interesting to notice what a particular emphasis was given to the rise of rents, as that demonstrates how closely *Mun* followed the lessons given to him by practical experience. For as has been pointed out above, it was just the price of land and its products which was by virtue of the law of diminishing return, bound to be raised more than that of any other category of commodities.

Other mercantile economists of the seventeenth century were arguing on very much the same lines, especially emphasizing the close connection between landed interest and the expansion of trade. That point of view was expressed by *Malynes*: «The more readie money either in specie or by exchange, that our merchants should make their returne by, the more employment will employ the people who are now idle, and these now employ'd to more advantage: so the product will be encreas'd, and manufacture advanc'd.» (*Money and Trade*, p. 198). Of these inflationist theories, an instructive account may be found in *Tallqvist*, *Merkantilistiska banksedelteorier*.

<sup>1</sup> *Mun*, *England's Treasure*, pp. 29—30.

would they make upon our home commodities, advancing the price thereof, which price would augment the quantitie by setting more people on work: and would also increase her Maiesties customes outward. All which is tending to the generall good of her Maiesty, the whole realme, and everie inhabitant thereof.<sup>1</sup> The close relation of trade and land was expounded by Child as follows: »The inseparable affinity that is in all nations, and at all times between land and trade, which are twins, and have always, and ever will wax and wane together. It cannot be ill with trade, but land will fall, nor ill with lands, but trade will feel it.»<sup>2</sup> The author of the *Britannia Languens* opens his Preface with the following remark: »My original design was to examine by what means our English land-rents, lately fallen, might be universally advanced; which I have principally pursued; but have found such a concatenation and sympathy between the interest of land and trade, and between these, and that of the Government; that I have been carried into all the considerations you will meet with.» Of his considerations, the following instructive passage may be quoted: »A forreign trade (if managed to the best advantage) will yet further advance the values of lands, by necessitating a vast increase of people, since it must maintain great multitudes of people in the very business of trade, which could not otherwise be supported. — And hence must arise a kind of competition amongst the people who shall farm or purchase land, when the revenue of land is certain, and grows higher daily, as the treasure and people increase, which must cause land to rise as well in the years' purchase, as in the years' value.»<sup>3</sup> Further we may quote D'Avenant's assertion that »the price of land, value of rents, and our commodities and manufactures rise and fall, as it goes well or ill with our foreign trade»<sup>4</sup>, and the assertion of Locke that the country gentleman »is more concerned in

<sup>1</sup> Malynes, *A Treatise of the Cancer*, pp. 109—10.

<sup>2</sup> Child, *o.c.* Preface.

<sup>3</sup> *Britannia Languens*. Early Engl. Tracts, pp. 291—2.

<sup>4</sup> D'Avenant, *An Essay upon Ways and Means*. Works, I. p. 17.

trade, and ought to take a greater care, that it be well managed, and preserved, than even the merchant himself». <sup>1</sup> Pollexfen writes: «Plenty of money will alwayes produce variety and plenty of chapmen to purchase, or take lands at annual rents, and cause the products to advance in price; but scarcity of cōyn will alwayes have the contrary effect: And it is not likely that any other way can be found out to advance the value of lands that will be general, or hold for any long time.» <sup>2</sup>

To conclude: the seventeenth century mercantilists generally connected a favourable balance of trade, increasing prices and the progress of economic life. They were, in doing so, less putting forward an economic theory of the internal relation of money and prices than simply stating a practical experience, a truism, based upon the course of economic development as it actually showed itself in the age of early capitalism. But these practical experiences were, as we have seen, of great importance for the current notion of the nature of money and the balance of trade.

<sup>1</sup> Locke, *Considerations. Essays*, p. 595.

<sup>2</sup> Pollexfen, *A Discourse of Trade*, p. 43.

## V. The Importance of the Favourable Balance of Trade.

### 1.

In the two preceding chapters we have inquired into the importance of the precious metals in the age of early capitalism. These chapters form, as has been pointed out, a discourse preliminary to a broader question: that of the importance of the favourable balance of trade in the mercantile system.

These two questions — the question of the importance of gold and silver and that of the importance of the favourable balance of trade — have not always been kept strictly apart. They have, on the contrary, been often treated as synonymous conceptions. The mercantile doctrine, so it has been stated, made wealth and money identical, and regarded it therefore as the great object of a community so to conduct its dealings with other nations as to attract to itself the largest possible share of the precious metals.<sup>1</sup> This notion that mercantilists, by confusing

<sup>1</sup> Cf. Ingram, *History of Political Economy*, p. 37. The tradition of this notion is generally traced back to some utterances of the founders of the liberal school, David Hume and Adam Smith. Especially the following passage of Smith has played a conspicuous role in the propagation of the idea: 'I thought it necessary, though at the hazard of being tedious, to examine at full length this popular notion that wealth consists in money, or in gold and silver. Money in common language, as I have already observed, frequently signifies wealth; and this ambiguity of expression has rendered this popular notion so familiar to us, that even they, who are convinced of its absurdity, are very apt to forget their own principles, and in the course of their reasonings to take it for granted as a certain and undeniable truth.'

wealth and the precious metals, regarded the chase after these metals as the ultimate end of economic activity and, consequently, as the sole purpose of the balance of trade, is without real foundation in mercantilist literature.

That has, indeed, appeared clearly enough in the course of our inquiry. Nowhere did we find that acquiring gold and silver was regarded as the ultimate end of economic activity. When mercantilists pleaded for the hoarding of gold and silver as treasure, that was done wholly with a view to the safety of the nation in cases of emergency. And still less were these metals held as the only species of wealth, when acquired and used as the standards of money; for it was perceived that the very function of money was to serve as a medium of exchange in pursuing further

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Some of the best English writers upon commerce set out with observing, that the wealth consists, not in its gold and silver only, but in lands, houses, and consumable goods of all different kinds. In the course of their reasonings, however, the lands, houses, and consumable goods seem to slip out of their memory, and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply those metals is the great object of national industry and commerce (The Wealth, I. pp. 415—6). Adam Smith did not charge mercantile writers with an absolute ignorance of the principles of wealth, though he reproached them with bad confusion in thought. In the hands of later liberals the charge was, however, reshaped into an absolute. As one of the most striking examples, the following passage of Macleod may be quoted: "Midas was the parent of the Mercantile System, and for several centuries every Government in Europe was imbued with his ideas; though alas! with more direful consequences, for unluckily there was no merry god at hand to release them from their folly. Midas saw that, with treasure in his hand, he was wealthy — he could obtain what ever he wanted, and could command the services of others. He quite forgot that gold was only of use while it could command something else, and if that something else were changed into gold, his gold would be of no use whatever. Gold therefore, was only of use because of the multitude of things which were not gold." (Principles of Economical Philosophy, p. 50).

ends. How often was it urged that money should circulate!<sup>1</sup> The fallacy of the charge that mercantilists considered public opulence to consist in money, has, indeed, been thoroughly refuted during the last fifty years. C a n n a n, for instance, has stated the case in concise terms as follows: »It is quite possible to quote from these [mercantile] writers passages in which bullion and wealth are identified, and the riches or poverty of a nation made to depend upon the quantity of bullion it possesses. But whether this is absurd or not entirely depends on the meaning given to the words wealth, riches, and poverty. A writer may use a word in a sense which is not given to it in ordinary conversation without being ridiculous. It would be ridiculous, indeed, to contend that a nation could be well fed and comfortably clothed and housed by gold alone; but there is no reason to suppose that the wildest mercantilist ever suffered from this delusion. The mere existence of the fable of Midas was a sufficient safeguard. The mercantilists may be justly accused of exaggerating the importance of having a hoard of bullion and of recommending a number of useless regulations for the purpose of securing such a hoard, but none of them ever imagined gold and silver to be the only economic good.»<sup>2</sup>

The notion of mercantile fallacy as to the principles of wealth being itself a fallacy, it would appear, perhaps, a waste of time to dwell further on so sterile a notion.<sup>3</sup> This question has, however,

<sup>1</sup> Cf. above, pp. 67-70. If it be true, as J. S. t. M i l l asserts, that the mercantile theory was first refuted when men began to reflect »that money, like other things, is only a desirable possession on account of its uses; and that these, instead of being, as they delusively appear, indefinite, are of a strictly defined and limited description, namely, to facilitate the distribution of the produce of industry according to the convenience of those among whom it is shared» (Principles of Political Economy, I. p. 6), surely, mercantilists were themselves the first to refute mercantilism.

<sup>2</sup> C a n n a n, Theories of Production, pp. 2-5.

<sup>3</sup> It is a remarkable instance of the tenacity of deep rooted however false ideas, that reminiscences of the old charge against mercantile writers may still be occasionally found even in the work of prominent economists. H e l f f e r i c h e.g. has brought forward the following view: »The notion

another aspect, far more interesting, and that is: How is it possible that the mercantile idea of wealth has been so utterly misinterpreted by a later time? This question upon which some light will be thrown in the following pages, carries us deep into mercantile psychology and clears the way to the broader problems still ahead.

Anybody who has been perusing mercantile expositions must allow that the subsequent confusion has to a very considerable extent been caused by the mercantile writers themselves. The inefficient way in which they often stated their point of view, their indifference to the theoretical side of the questions, their inclination to rash generalizations: all these considered, it seems no wonder if readers of a later time were lead astray, readers who neither were imbued with the spirit of mercantilism, nor managed

of the mercantile age, according to which money is the true embodiment of wealth, did not comprehend that the volume of the demand for money, at any time, was determined by the actual conditions of economic life of the nation; the amassing of the greatest possible hoards of the precious metals — these alone were considered to be money — appeared, without any regard being paid to what ends they were to be employed in, as intrinsically worth striving for; money was still looked upon in the same way as e. g. the treasures of Indian princes, among whom hoarding is itself an end, and not limited to any special use (Das Geld, pp. 474—5. Cf. also p. 2). Knut Wicksell, the well known Swedish economist, writes: «In modern times, the Quantity Theory has arisen — as a reaction against the mercantile opinion, that opinion that saw in money the true substance of wealth, not merely an outward representative of it, and that therefore necessarily ascribed to money an intrinsic value (Wert an sich), independent of its function as a medium of exchange» (Vorlesungen über Nationalökonomie. Theor. Teil, II. pp. 163—4). Among less prominent writers on economics, one sometimes chances on even more radical assertions. Thus in Murray's New English Dictionary on Historical Principles, the mercantile system is defined as «a term used by Adam Smith and later Political Economists for the system of economic doctrine and legislative policy based on the principle that money alone constituted wealth» (XVI.). And a Viennese economist has recently proposed as mercantile ideas: «Money is the wealth, the prosperity, the happiness. The active balance of trade, indicating an increase of money, indicates consequently wealth and prosperity» (Kerschagl, Die Lehre vom Gelde, p. 5).

to get beneath the surface of mercantile expositions. The obscurity of language was, indeed, so great that long before the time of David Hume and Adam Smith economists were already occasionally charging each other with having confused money and wealth. This fact seems not to have been duly noticed by later students of mercantilism. We find, for instance, in England's Great Happiness a passage where the author pleading against bullionist prohibitions and pointing out that if the precious metals were not allowed to be exported to the East Indies, the English would have to strike out that trade altogether, adds with subtle irony: «which the Dutch will heartily thank you for, and give you a golden god to boot.»<sup>1</sup>

The point of this sentence was directed against an exaggeration of the value of precious metals in general. A few years later, D'Avenant brought forward a similar charge, but expressly directed it against a contemporary economist, Pollexfen. This writer had asserted that «jewels, lead, tin or iron, though durable, — do not so well deserve to be esteemed treasure»<sup>2</sup>, against which proposition D'Avenant puts down his protest:

«It is a very hard thing to define what may be truly called the riches of a people. Our author in a manner confines it only to gold and silver; but with submission to better judgments, we think it has a signification far more extensive.

We understand that to be wealth, which maintains the prince and the general body of his people, in plenty, ease and safety.

We esteem that to be treasure, which for the use of man has been converted from gold and silver, into buildings and improve-

<sup>1</sup> England's Great Happiness. Early Engl. Tracts, p. 259. A curious incident may here be related: Mc Culloch, who published England's Great Happiness among other early tracts, speaks in the preface to that publication of «the gilded image of clay and mud», thus denouncing «the slavish adoration» of gold and silver in almost the same words as one of the accused does in the passage quoted above (Early English Tracts. Preface, p. VII).

<sup>2</sup> Pollexfen, England and East-India, p. 7.

ments of the country, as also other things convertible into those metals, as the fruits of the earth, manufactures, or foreign commodities and stock of shipping.

We hold to be riches, what tends to make a people safe at home and considerable abroad, as do fleets and naval stores.

We shall yet go farther, and say, that maritime knowledge, improvement in all kind of arts, and advancing in military skill, as also wisdom, power and alliances, are to be put into the scale when we weigh the strength and value of a nation.<sup>1</sup>

This exposition of D'Avenant's has been quoted at such length, because it forms one of the most clear and interesting statements of the conception of wealth current in the seventeenth century. In his attack upon Pollexfen, D'Avenant was, however, decidedly wrong, as this writer had used «treasures», not as synonymous with wealth, but as synonymous with gold and silver. D'Avenant himself had no better fortune than to be himself charged by a later mercantilist, John Smith, with «want of a true and full idea of what are riches», because he had neglected home trade as being «no part of the balance of trade directly».<sup>2</sup>

As further examples of early charges of confusion as to the fundamentals of wealth, the following queries of Bishop Berkeley may be quoted.

«Whether, if money be considered as an end, the appetite thereof be not infinite? But whether the ends of money itself be not bounded?»

«Whether the mistaking of the means for the end was not a fundamental error in the French councils?»<sup>3</sup>

The Dean Josiah Tucker criticized the «Instructions touching the Bill for a Free Trade», drawn up by Sir Edward Sandys during the reign of James I, as follows: «The error is, that money is wealth; whereas in fact, industry is wealth, and money

<sup>1</sup> D'Avenant, Discourses on the Public Revenues Works, I pp. 381—2

<sup>2</sup> John Smith, *Chronicon Rusticum*, I. p. 413, note

<sup>3</sup> Berkeley, *The Querist* Works, IV, pp. 450, 582

is only the ready and expeditious method of circulating the produce or manufactures of this industry from hand to hand.» In the first place, the capital mistake, that money is riches, is the basis of all.»<sup>1</sup>

These writers were thus charging one another with entertaining false ideas of wealth. These charges had apparently about the middle of the eighteenth century already grown up into a popular creed, that needed but to be picked up by David Hume and Adam Smith and reformed into a general repudiation of the theory of the balance of trade. The confusion arose, as has already been pointed out, partially from mere obscurity of language, as was e. g. the case in the controversy between Pollexfen and D'Avenant, and partially also from the fact that the precious metals were little by little losing the important position held by them in the sixteenth and the seventeenth centuries. But to these factors must be added a third, equally important. And that is the fact that mercantilists were employing the term «riches» simultaneously in two different senses, neither of which fully corresponds to the modern conception of riches. Sometimes it was evidently used as a synonym for «gold and silver», but not for wealth in general. Thus e. g. in the author of the *Britannia Linguens*, who, stating the evil consequences of a passive balance of trade, asserted: «And upon this occasion I shall add, that there is no possible way for restoring the securities and credits of England, but by restoring its riches.»<sup>2</sup> Pollexfen wrote: «A great difference should be made between such trades and imployments that in their nature and design tend to get and bring riches into the nation, and those

<sup>1</sup> Tucker, *The Elements of Commerce*, pp. 157, 162. May it be pointed out that some French economists repudiated remarkably early the notion that riches consist in money. That was, indeed, done already by Monchrétien (1615) and Boisguillebert (1695) who expressly pointed out the fallacy: «Que c'est une erreur grossière de regarder l'Or et l'Argent comme l'unique principe de richesse, et de la félicité de la vie» (Cf. Oaken, o. c., pp. 175, 252).

<sup>2</sup> *Britannia Linguens*. Early Engl. Tracts, pp. 453—4.

that can only serve to make it change hands.<sup>1</sup> Locke said: »For, we having no mines, nor any other way of getting, or keeping of riches amongst us, but by trade — —»<sup>2</sup>, or, in another place: »Kingdoms are seldom found weary of the riches they have, or averse to the increase of their treasure.»<sup>3</sup>

But more often »riches» was used in a broader sense. So it was used in D'Avenant's definition of riches quoted above.<sup>4</sup> The same is the case with the following passage of Roberts: »Now the abundance, plenty, and riches of an estate or nation, may be said, principally to consist in three things. 1. In naturall commodities or wares. 2. In artificial commodities or wares. 3. In the profitable use and distribution, of both by commerce and traffike.»<sup>5</sup> Mun says: »And forasmuch as the people which live by the arts are far more in number than they who are masters of the fruits, we ought the more carefully to maintain those endeavours of the multitude, in whom doth consist the greatest strength and riches both of king and kingdom; for where the people are many, and the arts good, there the traffique must be great, and the countrey rich.»<sup>6</sup> And Child writes: »That wool

<sup>1</sup> Pollexfen, A Discourse of Trade, p. 154

<sup>2</sup> Locke, Considerations. Essays, p. 565.

<sup>3</sup> Locke, Further Considerations. Essays, p. 685. As a further example, the following passage of Berkeley may be quoted: »Men are apt to measure national prosperity by riches. It would be righter to measure it by the use that is made of them. Where they promote an honest commerce among men, and are motives to industry and virtue, they are, without doubt, of great advantage; but where they are made (as too often happens) an instrument to luxury, they enervate and dispirit the bravest people« (An Essay towards preventing the Ruin. Works, IV. p. 327). Tucker asserts: »It is not therefore riches, considered merely in themselves, that can make a kingdom flourish« (A Brief Essay, p. 84). Be it noted that in the third edition of the same book the sentence is altered and runs as follows: »It is not therefore gold and silver, considered merely in themselves, that can make a kingdom flourish.«

<sup>4</sup> Cf. above, p. 118.

<sup>5</sup> Roberts, o. c., p. 60.

<sup>6</sup> Mun, o. c., p. 17.

is eminently the foundation of the English riches, I have not heard denied by any.»<sup>1</sup>

These examples of employing «riches» in the broader sense are taken at random and could easily be multiplied. Common to all of them is a peculiar trend that strikes a modern student carefully surveying them: the mercantile writers, in denoting certain economic categories as «riches», are paying special regard to their productive capacity, or, as Roberts expressed it, to the profitable use and distribution of natural and artificial commodities and wares by commerce and traffic. This mercantile conception of riches does not wholly correspond to what we should call wealth or riches, for speaking with Marshall, «There is a clear tradition that we should speak of Capital when considering things as agents of production; and that we should speak of Wealth when considering them as results of production, as subjects of consumption and as yielding pleasures of possession.»<sup>2</sup>

It appears from this definition that the mercantile term «riches» was simultaneously covering the modern conceptions of wealth and capital. This peculiarity of mercantile terminology must in the first place be ascribed to the fact that the economic vocabulary did not then contain any acknowledged equivalent for the modern term «capital». Not till the middle of the eighteenth century was the word capital employed in a sense approaching to later practice.<sup>3</sup> The fact again that «riches», this double conception, was used by mercantilists of the seventeenth century predominantly in the sense of «capital» or «capital wealth», was a natural consequence of mercantilism's preoccupation, as a rule, with production rather than with consumption and the pleasures of possession.

We have thus seen that the term «riches» was used in mercantile literature in two different senses: in a narrower sense to denote

<sup>1</sup> Child, *o. c.*, p. 155.

<sup>2</sup> Marshall, *Principles*, p. 81.

<sup>3</sup> Cannan, *Early History of the Term Capital*. *Quarterly Journal of Economics*, XXXV. (1921), pp. 469, etc.

gold and silver and in a broader sense to denote capital wealth.<sup>1</sup> This ambiguous use of the term «riches» was, indeed, easy to fall into, the two conceptions being closely related to each other, as money represented at that time a most effective part of the capital resources of the nation. In the light of this alone, mercantile passages where money is praised as riches or even the riches of the nation become reasonable, though the writers may be charged with being guilty of exaggerations or undue generalizations. That was e. g. the case with a sentence of Locke's: «The overbalancing of trade, between us and our neighbours, must inevitably carry away our money; and quickly leave us poor, and exposed. Gold and silver, though they serve for few, yet they command all the conveniences of life, and therefore in a plenty of them consists riches»<sup>2</sup>

But as neither of the senses in which «riches» was employed by mercantilists exactly corresponds to the conception of riches that has been current in later times, confusion was unavoidable, when later economists, when reading mercantile expositions, unawarely substituted for the original conception of riches, the fundamentally different idea of wealth held by themselves. Thus, an economist starting from the point of view that «the opulence of a nation does not consist in the quantity of coin, but in the abundance of commodities which are necessary for life, and whatever tends to increase these tends so far to increase the riches of

<sup>1</sup> There is a remarkable resemblance in the use of the corresponding terms in the German and French economic literature. An expert on the cameralist literature in Germany has interpreted the sense of «Reichtum» as follows: «To make the term Reichtum, as it was used by the cameralists, equivalent to the term wealth in nineteenth-century abstract political economy, is an arrant anachronism. The term was virtually a synonym of the more technical cameralistic phrase *berestetes Vermögen*, or «ready means» (Small, *The Cameralists*, p. 154). In France, the term «l'argent» as used by Colbert in the phrase «attirer l'argent dans le royaume», did not mean money alone, but commodities in general, to be used as productive wealth (Oncken, *o. c.*, p. 178).

<sup>2</sup> Locke, «Considerations» *Essays*, p. 565

a country<sup>1</sup>, could not but be inclined to stigmatize the notion that the riches of a country consists in money<sup>2</sup>, as an absurdity comparable to the delusion of Midas.

## 2.

From our preceding considerations it is clear that the theory of the balance of trade was not founded upon the fallacy that public wealth consists in gold and silver. We have seen that the precious metals were valued by mercantilists, primarily, not as wealth, but as an important capital force. But some later economists having rightly perceived that gold and silver were sought for on account of their character as capital, have drawn from mercantile expositions denoting home trade as sterile and foreign trade alone as productive, the conclusion, that money was regarded as the only, or at least, by far the most essential productive force.<sup>3</sup>

This notion has, indeed, the appearance of being exceedingly well-founded. Almost any of the early mercantilists might be called upon to bear witness in the case. To take a few examples: According to Hales, «All the expenses of buyldinges, for the

<sup>1</sup> Adam Smith, Lectures, p. 192.

<sup>2</sup> Adam Smith, Lectures, pp. 199—200.

<sup>3</sup> Among the advocates of such an opinion, may be noted: Roscher who asserts that mercantilists understood by money mostly what we should call capital (*Geschichte der National-Oekonomik*, p. 229); Heyking, who maintains that «Money was the mask behind which capital was concealed with its innumerable different forms. For this narrow form of capital, that alone was known to them, mercantilists were striving, when they urged, instead of mere consumption, the hoarding of money». They regarded therefore that labour alone as productive whose products could be exchanged for gold and silver (*O. c.*, p. 75); Zielenziger, who has come to the conclusion that money represented capital for mercantile writers and that their fallacy lay in that money was considered to be the only productive force of the nation (*O. c.*, p. 55); Laughlin, according to whom the belief that money and capital were nearly synonymous was widespread, and as a consequence nations tried to encourage the inflow, and discourage the outflow, of species (*Principles*, p. 225).

most parte, is spent emonge oure neighbours and countriemen, as emonge carpenters, masons and laborers: except men will fall to gildinge or paintinge of these howses for in that much treasure may be spent to no use. Also the arrisses, verderers, and tapstrie worke wheare with they be hanged, commonly conveith over into Flanders, and other strange countiees wheare they be had for much of our treasure.<sup>1</sup> Malynes writes »The wealth of the realme cannot decrease but three manner of wayes, which is by the transportation of ready money, or bullion out of the same: by selling our home commodities too good cheape or by buying the forrenne commodities too deare, wherein chiefly consisteth the aforesayd overballancing.»<sup>2</sup> Mun asserts »The pomp of buildings, apparel, and the like, in the nobility, gentry, and other able persons, cannot impoverish the kingdome; if it be done with curious and costly works upon our materials, and by our own people, it will maintain the poor with the purse of the rich, which is the best distribution of the commonwealth.»<sup>3</sup> Fortley, too, is willing to maintaine and encourage expenditure on apparel, &c. if only the following rules are observed: »First, that the vanity of the expence do not depend on such commodities, as have too much of the substance of gold, silver, or silk, whereby the publick treasure is wasted and lost. Secondly, that we impoverish not our selves to enrich strangers, by that unnatural vanity, in preferring forein commodities though worse, before our own, that are better. Thirdly, that the excess of this expence consist chiefly in the art, manufacture and workmanship of the commodity made in our own country, whereby ingenuity would be encouraged, the people employed, and our treasure kept at home, so as the prince would be nothing damnified by the excess for the ruin of one would raise as much another of his subjects, and money

<sup>1</sup> Hales, *o c*, pp 84—5

<sup>2</sup> Malynes, *A Treatise of the Canker*, pp 3—4

<sup>3</sup> Mun, *o c* p 81

would thereby be more moving, which would be a great encouragement, and satisfaction to the people.»<sup>1</sup>

In Petty we find the following: »Now the wealth of every nation, consisting chiefly, in the share which they have in the foreign trade with the whole commercial world, rather than in the domestick trade, of ordinary meat, drink, and cloaths, &c. which bringing in little gold, silver, jewels, and other universal wealth; we are to consider, whether the subjects of the King of England, head for head, have not a greater share, than those of France.»<sup>2</sup> Locke suggests: »It is with a kingdom as with a family. Spending less than our own commodities will pay for, is the sure and only way for the nation to grow rich.»<sup>3</sup> And according to D'Avenant, »It is the exportation of our own product that must make England rich; to be gainers in the balance of trade, we must carry out of our own product what will purchase the things of foreign growth that are needful for our own consumption, with some overplus, either in bullion or goods, to be sold in other countries; which overplus is the profit a nation makes by trade.»<sup>4</sup> Elsewhere the same author asserts that »by what is consumed at home, one loseth only what another gets and the nation in general is not all the richer.»<sup>5</sup> According to Pollexfen, »Buying, selling, and trading amongst our selves, may occasion that one man may grow richer than another, but hath no immediate influence upon the enriching or impoverishing of the nation.»<sup>6</sup>

The passages quoted above seem to indicate that the organic process of production was very badly understood by mercantile writers. But in order to get as clear an insight as possible into

<sup>1</sup> Fortrey, o.c., p. 27.

<sup>2</sup> Petty, Political Arithmetick. Writings, I. p. 295.

<sup>3</sup> Locke, Considerations. Essays, p. 608.

<sup>4</sup> D'Avenant, An Essay upon the Probable Methods. Works, II. p. 199.

<sup>5</sup> D'Avenant, En Essay on the East India Trade. Works, I. p. 103.

<sup>6</sup> Pollexfen, A Discourse of Trade, p. 40.

their idea of production. let us get down to particulars and examine how far the prerequisites of production were actually recognized by them.

#### L a n d.

The part which land plays in production was none of the current topics in the mercantile literature of the seventeenth century. That the productive role of land was, however, not overlooked, appears from the following. Mun divides wealth into natural and artificial riches and notes the natural riches as »proceeding of the territories it selfe»<sup>1</sup> Roberts writes »The earth, though notwithstanding it yeldeth thus naturally the richest and most precious commodities of all others, and is properly the fountaine and mother of all riches and abundance of the world — —»<sup>2</sup> Hobbes denotes the role of land with a well-chosen image. »As for the plenty of matter, it is a thing limited by nature, to those commodities, which from (the two breasts of our common mother) land and sea, God usually either freely giveth or for labour selleth to man-kind»<sup>3</sup> Child, too, speaks of land as »our common mother»,<sup>4</sup> Petty describes it as »the mother of wealth»,<sup>5</sup> and according to Locke, nature is »the common mother of all»<sup>6</sup> D'Avenant gives great esteem to land »Gold and silver are indeed the measure of trade, but the spring and original of it in all nations, is the natural or artificial products of the country, that is to say, what their land, or what their labour and industry produces.»<sup>7</sup>

<sup>1</sup> Mun, A Discourse of Trade Early Engl Tracts, p 40

<sup>2</sup> Roberts, o c, p 61

<sup>3</sup> Hobbes, o c, p 188

<sup>4</sup> Child, o c Preface

<sup>5</sup> Petty, A Treatise of Taxes Writings, I p 45

<sup>6</sup> Locke, Of Civil Government, p 23

<sup>7</sup> D'Avenant, Discourses on the Public Revenues. Works, I p. 354

## Labour.

The economic writers of the seventeenth century pay the greatest attention to matters of population. According to Mun, in a multitude of people «doth consist the greatest strength and riches both of king and kingdom». <sup>1</sup> The author of the *Britannia Linguens* says: «People are therefore in truth the chiefest, most fundamental, and precious commodity, out of which may be derived all sorts of manufactures, navigation, riches, conquests, and solid dominion: This capital material, being of it self raw and indigested, is committed into the hands of the supreme authority; in whose prudence and disposition it is, to improve, manage, and fashion it to more or less advantage.» <sup>2</sup> Child writes: «That most nations, in the civilized parts of the world, are more or less rich or poor, proportionable to the paucity or plenty of their people. — — The whole world is witness to the truth of it.» <sup>3</sup> Petty asserts that «fewness of people, is real poverty; and a nation wherein are eight millions of people, are more then twice as rich as the same scope of land wherein are but four». <sup>4</sup> The same is the idea in the following passage: «There is nothing so much wanting in England as people: and of all sorts of people, the industrious and laborious sort, and handicraftsmen are wanted to till and improve our land and help to manufacture the staple commodities of the kingdom: which would add greatly to riches thereof.» <sup>5</sup>

These quotations have demonstrated what an extraordinary importance was attributed to people. Oncken has also very appropriately observed that mercantilists might with more right be charged with having identified people and wealth, than money

<sup>1</sup> Mun, *England's Treasure*, p. 17.

<sup>2</sup> *Britannia Linguens*. Early Engl. Tracts, p. 458.

<sup>3</sup> Child, *o.c.*, p. 195.

<sup>4</sup> Petty, *A Treatise of Taxes*. Writings, I. p. 31.

<sup>5</sup> *The Grand Concern of England*. Quoted by Grégory in *«Economica»*, 1924, p. 46.

and wealth.<sup>1</sup> Such a charge would, however, be equally ill-founded. From the passages quoted above has clearly appeared that the mercantile writers do not so much refer to people themselves as to the productive power, the prospective wealth, inherent in the «stock» of people. «Population was looked upon mainly as a factor of production.»<sup>2</sup>

Labour is also directly spoken of as an agent of production; and with advancing time, as economic terminology gains in precision, the terms «people» or «population» are less and less used, instead of «labour».<sup>3</sup> In Mun we find the following passage. «And indeed our wealth might be a rare discourse for all Christendome to admire and fear, if we would add — — our labour to our natural means»<sup>4</sup> Petty asserts «Labour is the father and active principle of wealth»<sup>5</sup> And Locke estimates labour as almost the exclusive source of wealth. «It is labour indeed that puts the difference of value on everything — — If we will rightly estimate things as they come to our use, and cast up the several expenses about them — what in them is purely owing to nature, and what to labour — we shall find that in most of them ninety-nine hundredths are wholly to be put on the account of labour»<sup>6</sup>

It may be pointed out lastly that Petty recognized the influence of the division of labour upon its efficiency. «For in so vast a city manufactures will beget one another, and each

<sup>1</sup> Oncken, o. c., p. 179

<sup>2</sup> Gregory, The Economics of Employment. In «Economica», 1921, p. 40 —

<sup>3</sup> When there is still in the eighteenth century any talk of people as riches, it is mostly with express reference to them as producers. «People are the wealth of a nation, yet it can only be so, where we find employment for them, otherwise they must be a burthen to it» (Cary, An Essay towards Regulating the Trade, p. 48), «People are the riches of a kingdom, if properly employed» (Gee, The Trade, p. 77).

<sup>4</sup> Mun, o. c., p. 100

<sup>5</sup> Petty, A Treatise of Taxes Writings, p. 49

<sup>6</sup> Locke, Of Civil Government, p. 30

manufacture will be divided into as many parts as possible, whereby the work of each artisan will be simple and easy; as for example. In the making of a watch, if one man shall make the wheels, another the spring, another shall engrave the dial-plate, and another shall make the cases, then the watch will be better and cheaper, than if the whole work be put upon any one man. And we also see that in towns, and in the streets of a great town, where all the inhabitants are almost of one trade, the commodity peculiar to those places is made better and cheaper than elsewhere.»<sup>1</sup>

### Capital.

The seventeenth century forms also a period of transition in the sense that the economic life was steadily developing towards the industrial system of modern times. Economic policy paid much attention to developing the latent capital resources of the country. At every step the inquirer into that period is confronted with schemes of extending native industries, such as agriculture, fishery, cloth, iron, paper-making, etc., or of planting and fostering new industries, like alum, glass, soap, oils, salt, saltpetre, etc. Great efforts were also made to improve the system of communication, by building new roads and canals, not to speak of the fostering of mercantile marine that was given since the times of William Cecil «a prominence which it had never had before, and which it has never since lost».<sup>2</sup>

This trend of the time is naturally reflected by contemporary economic literature. Thus Mun writes as follows: «If we duly consider England's largeness, beauty, fertility, strength, both by sea and land, in multitude of warlike people, horses, ships,

<sup>1</sup> Petty, *Another Essay. Writings*, II. p. 473.

<sup>2</sup> Cunningham, *o. c.*, *Modern Times*, p. 64. As a characteristic example of the tendency of economic policy, it may here be mentioned that during the sixteenth century 9, during the seventeenth 24, and during the eighteenth, 36 laws were passed ordering improvement of rivers (Sommerbart, *o. c.*, II. p. 252).

ammunition, advantageous situation for defence and trade, number of seaports and harbours, which are of difficult access to enemies, and of easy out-let to the inhabitants wealth by excellent fleec-wools, iron lead, tynn, saffron, corn, victuals, hides, wax, and other natural endowments, we shall find this kingdom capable to sit as master of a Monarchy For what greater glory and advantage can any powerful nation have, than to be thus richly and naturally possessed of all things needful for food, rayment, war, and peace »<sup>1</sup> Petty enumerates different means by which employment might be procured for people »Making all high-ways so broad, firm, and even, as whereby the charge and tedium of travelling and carriages may be greatly lessened The cutting and scowring of rivers into navigable; the planting of usefull trees for timber, delight, and fruit in convenient places. The making of bridges and cawseys The working in mines, quarries, and collieries. The manufactures of iron, &c » — »I pitch upon all these particulars, first, as works wanting in this nation, secondly, as works of much labour, and little art; and thirdly, as introductive of new trades into England, to supply that of cloth, which we have almost totally lost »<sup>2</sup>

These examples may suffice to denote the attitude of mercantile writers as regards the capital wealth of the nation in general If we turn our attention to particulars, the extreme importance attributed to shipping must especially be pointed out. There was scarcely any economist in the seventeenth century who would not have been anxious for the improvement and expansion of shipping Here may only be referred to Child, according to whom the state of shipping offered the best criterion of the state of trade and industry On the other hand, the fact strikes a modern reader, that there was little direct mention and appreciation of tools, machinery and other labour saving technical implements, in other words, of that auxiliary capital of industrial

<sup>1</sup> Mun, o. c., p. 97—8.

<sup>2</sup> Petty, A Treatise of Taxes Writings, I pp 29—30

enterprise which holds such a prominent place in the modern conception of capital. Only now and then do we find special attention paid to this kind of capital. Thus Fortrey points out that the Norwegian timber «employs a great shipping, and makes us build houses, ships, and cases for merchandise, at cheap rates, and if we might have a thousand saw-mills, for ought I know they might do us as much kindness as engine looms, and for all the talk of the short sighted rabble, employ twice the people too».<sup>1</sup> Petty writes: «One man by art may do as much work, as many without it; viz. one man with a mill can grind as much corn, as twenty can pound in a mortar; one printer can make as many copies, as an hundred men can write by hand; one horse can carry upon wheels, as much as five upon their backs; and in a boat, or upon ice, as twenty.»<sup>2</sup> And elsewhere the same author says: «Holland is a level country, so as in any part thereof, a windmill may be set up, and by its being moist and vaporous, there is always wind stirring over it, by which advantage the labor of many thousand hands is saved, forasmuch as a mill made by one man in half a year, will do as much labor, as four men for five years together.»<sup>3</sup> In Cary we find a passage as follows: «The refiners of sugars lately sold for six pence per pound what yielded twenty years since twelve pence; the distillers sell their spirits for one third part of what they formerly did; glass-bottles, silk-stockings, and other manufactures (too many to be here enumerated) are sold for half the prices they were a few years since, without falling the labour of the poor. — — But then the question will be, how this is done. I answer, it proceeds from the ingenuity of the manufacturer, and the improvements he makes in his ways of working; thus the refiner of sugars goes thro' that operation in a month, which our forefathers required four months to effect;

<sup>1</sup> Fortrey, o. c., p. 26.

<sup>2</sup> Petty, Political Arithmetick. Writings, I. pp. 249—50.

<sup>3</sup> Petty, o. c. Writings, I. p. 256. It may be noted that in 1691 Petty published a paper called, «An Account of Several New Inventions and Improvements now necessary for England.»

thus the distillers draw more spirits, and in less time, from the simples they work on, than those formerly did who taught them the art; the glassmaker hath found a quicker way of making it out of things which cost him little or nothing; silk-stockings are wove instead of knit; tobacco is cut by engines instead of knives; books are printed instead of written, deal boards are sawn with a mill instead of men's labour, lead is smelted by windfurnaces instead of blowing with bellows. — — New projections are every day set on foot to render the making our woollen manufactures easie, which are made cheap by the heads of the manufacturers, not by falling the price of poor peoples labour.<sup>1</sup>

The fact that so little attention was paid by seventeenth century mercantilists to labour saving instruments of production, finds, in the first place, its explanation in the then prevailing economic conditions. Such instruments played in the seventeenth century only an insignificant role, compared with later times. Not till the eighteenth century was the era of expensive implements inaugurated in England, until that time the only trade that used very expensive implements was the trade of carrying goods by water the weaver's looms, the husbandman's ploughs and the blacksmith's anvils were of simple construction and were of little account beside the merchant's ships.<sup>2</sup> The domestic system was still the typical form in the most important industry of England, the clothing trade, as well as in many other trades too.<sup>3</sup>

But though it is true that the use of steam power first caused a rapid substitution of inexpensive hand tools by expensive machinery in one department of production after another and that this change did not take place until the eighteenth century, a reference to this fact cannot wholly explain the attitude of the seventeenth century economists to auxiliary capital. For it must not be forgotten that there had already taken place a steady

<sup>1</sup> Cary, *An Essay on Trade*, pp 145--7

<sup>2</sup> Marshall, *Principles*, p 221

<sup>3</sup> Cf Ashley, *The Economic Organisation*, pp 143—5

progress in industrial technic since the end of the Middle Ages, a progress, though insignificant, indeed, in comparison to the achievements of the eighteenth-century, important enough as compared to the former stationary state of development. Especially the latter part of the seventeenth century is distinguished in this respect. The period after the Restoration was characterized by De Foe as a «Projecting Age».<sup>1</sup> Cary's enthusiastic account of the gains in technic demonstrates also that there was already during the seventeenth century a powerful tendency towards technical development, a tendency that was in the following century to bring about the Industrial Revolution. It cannot, therefore, be denied that the indifference of the bulk of economic writers to the possibilities opened up by new technical improvements, signifies a serious lack of foresight and fertile economic imagination, though this mercantile indifference may be to some degree explained by the two different interests which here seemingly clashed: Technical improvements tended to save labour, while the general cry of the time was: More labour! More employment of labour! It was this very trait of mercantile thought that led later some eighteenth century economists to propagate such «short sighted rabble» as regards technical improvements as was already repudiated by Fortrey in the passage quoted above; thus, for instance, De foe and Postlethwayt directly opposed introducing labour saving machines.

The mercantile conception of production, may on the basis of what has been shown above, be shortly stated as follows: The different agents of production — Land, Labour, Capital — were all known to and appreciated by mercantile writers; only land did not take any prominent place in economic speculations and

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<sup>1</sup> De Foe, *An Essay on Projects*, p. 19. In this connection the great projector, Somerset, the second Marquis of Worcester (1601—70), may be mentioned, who in 1663 published a book of inventions called, *A Century of the names and Scantlings of such Inventions as at present I can call to mind to have tried and perfected, etc.*

the prevalent attitude towards auxiliary capital was as a whole rather conservative.

It is thus beyond doubt that mercantilists possessed a fundamentally right idea of production. But that being so, it is also evident that the numerous passages where home-trade was expressly stigmatized as sterile and foreign trade alone thought productive, must not be taken at their face value. We have here rather to do with the same kind of generalizations as in the case of the balance of trade v the balance of international indebtedness. One factor regarded as the most important among several different factors, is more or less consciously abstracted and to it is alone attributed the character common to them all. In this case the bearing of such a generalization must be interpreted as follows: In economic life, though all the different factors in the process of production are necessary for the successful carrying on of economic activities, the trades producing goods for exportation are, nevertheless, of such an importance, that special attention should be directed to the promotion of such economic activities. In other words, the foreign trade was regarded as productive, the home trade as sterile, not in an absolute, but in a relative sense.

Now and then this relativity of the importance of the balance of trade was expressly stated by mercantilists themselves. Thus Roberts pointed out three ways of enriching a kingdom. «The first whereof is by arms and conquest, but this way must be confessed to be, both chargeable, bloody & hazardable. The second is, by planting of colonies, building of well situated townes, and the like, and this is also accounted uncertain, chargeable and tedious. But the third and last is by traffike, and foraigne trade, which is held the most certain, easiest, and soonest way; money and time must bee consumed to effect the two former, but immunities, privileges, and liberties to the merchant, will not only assure, but perfect the latter»<sup>1</sup> The author of the *Britannia Lan-guens* wrote «Now should these restraints and discouragements

<sup>1</sup> Roberts, o c, p 58

[of corporations] on our own people and trade be removed, it would doubtless much advantage our trade in some time; but would not bring us so sudden an increase of people, manufactures, ships, and riches, as is highly requisite for the carrying on of a mighty trade, or perhaps for our national security; nor can these so suddenly be had, but from other parts of the world, where they are moving; men, ships, or riches, do not grow on the trees, nor yet drop out of the clouds.»<sup>1</sup>

## 3.

Some misconceptions about the importance of the favourable balance of trade have been above cleared up. We have seen that the favourable balance of trade was not thought to be the only means of procuring wealth, nor of procuring capital. Wealth as well as capital were for mercantilists much broader conceptions than could be covered by a single, though never so important category of commodities, such as gold and silver. We have also seen that the real cause why the balance of trade was so greatly emphasized, was the belief that economic activities were thereby strongly accelerated. Having now a closer grip of the importance of the favourable balance of trade, we may proceed further and ask: What were exactly the economic services of the favourable balance of trade by which the pace of economic progress was thought to be increased? In order to get a satisfactory answer to this question, we shall now go to examine the function of foreign trade. This function was a combination of two distinct functions: A function of export and a function of import.

### The Function of Export.

At the close of the Middle Ages the question of employment came to be of paramount importance in economic policy. That was partially a consequence of growing population. But it was also a consequence of changes in the economic structure of society, especially of the progress of «enclosures» whereby, tillage being

<sup>1</sup> Britannia Languens. Early Engl. Tracts, p. 358.

substituted for pasturage, large numbers of the rural population were reduced to the condition of homeless wanderers, and of the decay of the gild system whereby market considerations became paramount. There arose thus a numerous class of people for whom exchange of products and services for money was necessary for the support of life. But money was only obtainable in larger quantities by producing goods for sale on foreign markets. It came therefore to be a natural endeavour of official policy to get the greatest possible part of the population employed in export trades.<sup>1</sup>

With the formation of the balance of trade theory, this traditional care for creating employment for the population grew, very naturally, to be an organic part of the new theory. A favourable balance of trade signified, consequently, not only gaining gold and silver, but also extended foreign markets whereby sale was secured for home commodities and additional employment furnished to the people. Further an extended export trade meant a sure way to bigger population, that common goal of mercantile aspirations.

Let us only listen to the practically unanimous opinion of seventeenth century economists. Mun writes: «In our exportations we must not only regard our own superfluities, but also we must consider our neighbours necessities, that so upon the wares which they cannot want, nor yet be furnished thereof elsewhere, we may (besides the vent of the materials) gain so much of manufacture as we can, and also endeavour to sell them dear, so far forth as the high price cause not a less vent in the quantity. But the superfluity of our commodities which strangers use, and may also have the same from other nations, or may abate their vent by the use of some such like wares from other places, and with little inconvenience; we must in this case strive to sell as cheap as possible we can, rather than to lose the utterance of such wares.»<sup>2</sup> Or take the following passage of the same author: «Our fishing plantation likewise in New-England, Virginia, Greenland,

<sup>1</sup> Heyking, o. c., p. 12.

<sup>2</sup> Mun, o. c., p. 10.

the Summer Islands and the New-found-land, are of the like nature, affording much wealth and employments to maintain a great number of poor, and to encrease our decaying trade.»<sup>1</sup>

To these passages of Mun we could easily add others similar, where emphasis was laid upon the fact that foreign trade meant employment for labour. And that this point of view was, by no means, a mere counterpart of the mercantile chase after gold and silver, appears with particular distinctness from Mun's assertion that there should be an endeavour to sell the wares dear, «so far forth as the high price cause not a less vent in the quantity», i.e. so far forth as employment is not thereby lessened.

The same trend of thought characterizes the mercantile attitude in general. Hales writes: «I woulde know what would bringe us treasure from beyonde the seas and from strange partes, or wheare wich so manie people should be set a worke, as have now their livinges by clothinge, yf that occupation weare laide downe?»<sup>2</sup> In the instructions of the Standing Commission on Trade of 1622, there is a passage as follows «We have understood — — that the cloth of this kingdom hath of late yeares wanted that estimation and vent in forraign parts which formerlie it had, and that the wolls of this kingdom have and are fallen much from their wonted values, and trade in generall to be so far out of frame, that the merchants and clothiers of this kingdom are greatlie discouraged, so that great numbers of people ymployed by them, and depending on them, want work, the best meanes of their livelihood — —.»<sup>3</sup> Robinson asserts with much emphasis: «I beleeeve it will bee thought more beneficiall for a common-wealth to vent store of their commodities, at such lower, but moderate rates, as both manufactors

<sup>1</sup> Mun, o. c., p. 13.

<sup>2</sup> Hales, o. c., p. 89.

<sup>3</sup> Cunningham, o. c. Modern Times, p. 216, note 2.

and merchants may live thereby, though with lesse profit, than to sell a lesse quantitie at greater rates, the profit of the greater parcell in the whole exceeding that of the lesser, especially so many men more being set a work untill we have other employment for them.»<sup>1</sup> According to Roberts «traffike» enricheth the inhabitants of a countrey in the generall, by setting arts-men on worke, by employing the poore, by furthering and incouraging of all professions whatsoever, for every arts-man, workeman and artificer, is conducible one way or other to traffike, and every hand is set on worke, where a well governed commerce is observed to be driven, and exercised by judicious and skillfull merchants.»<sup>2</sup> Child asserts «Where a great trade is driven, especially where much shipping is employed, whatever becomes of the poor merchant, that drives the trade, multitudes of people, will be certain gainers, as his Majesty, and his officers of custom, besides shipwrights, butchers, brewers, bakers, rope-makers, porters, seamen, manufacturers, carmen, lightermen, and all other artificers, and people that depend on trade and shipping, which indeed, more or less, the whole kingdom does.»<sup>3</sup> According to England's Great Happiness: «The honest way that finds most employment and gets most money, is sure the best for any nation.»<sup>4</sup> And Pollexfen is of the opinion that «the safest way for a nation to enrich its self is to have many people, and many materials; for games made by a large trade may continue in spite of all opposition, but games made by a high price or small trade, not like to endure, and to the nation much better to have the gains arising by trade, divided amongst many, then few.»<sup>5</sup>

On the basis of the passages quoted above, we cannot but come to the evident conclusion, that mercantile writers of the seventeenth century did not desire only a favourable balance,

<sup>1</sup> Robinson, o. c., pp 55—6.

<sup>2</sup> Roberts, o. c., p 110

<sup>3</sup> Child, o. c., p. 178.

<sup>4</sup> England's Great Happiness Early Engl Tracts, p 262.

<sup>5</sup> Pollexfen, A Discourse of Trade, p 54

but, at the same time, also «a big balance», or «a great trade», as Child put it. Besides a large profit, a large sale was wanted.<sup>1</sup>

This request for a «big» balance, induced mercantile writers sometimes to recommend exportation of English commodities, even if the return should consist of things more or less undesirable. Such speculations on foreign trade, throwing special light on an important characteristic of mercantile mentality, are of more than usual interest. Thus Mun writes: «All kind of bounty and pomp is not to be avoided, for if we should become so frugal, that we would use few or no forraign wares, how shall we then vent our own commodities? what will become of our ships, mariners, munitions, our poor artificers, and many others? doe we hope that other countreys will afford us money for all our wares, without buying or bartering for some of theirs?»<sup>2</sup> According to Child, «If we would engage other nations to trade with us, we must receive from them the fruits and commodities of their countries, as well as send them ours.»<sup>3</sup> But on this point, Petty is the most explicit: «As for prohibition of importations, I say that it needs not be, until they much exceed our exportations. For if we should think it hard to give good necessary cloth for debauching

<sup>1</sup> This aspiration found perhaps its most advanced expression in a passage of Petty, where he proposes that the wealth of every nation consists chiefly in the share which they have in the foreign trade with the whole commercial world and where the advantage of trade, is estimated by considering the volume of exports as well as of imports. (Political Arithmetick. Writings, I. pp. 295—7.) Lord Edmond Fitzmaurice has pointed out that Petty saw «that the wealth of a country did not consist — — in the value of the exports exceeding that of the imports and the exporter gaining the difference in hard coin: but the value of the trade of any particular country was, on the contrary, to be ascertained by adding the values, so far as they could be ascertained, of the imports and exports together, not forgetting to take into account the value of the payments made for freight and seamen's wages and the value of cash payments received from abroad» (The Life of Sir William Petty, p. 199).

<sup>2</sup> Mun, o. c., p. 81.

<sup>3</sup> Child, o. c., p. 190.

wines, yet if we cannot dispose of our cloth to others, it were better to give it for wine or worse, then to cease making it.»<sup>1</sup>

Thus, foreign commodities were to be bought, not because they were wanted (for just the contrary was the case e. g. with the »debauching wines») but because only by that means could English products be sold abroad; not consumption, but production was the factor these writers were primarily concerned with. Such an attitude was, at all events, far remote from the view that the service of foreign trade consisted in supplying of gold and silver, and nothing else.

In this connection some attention must be paid to a slow, but continual change in the mercantile point of view, a change of the greatest importance for the right understanding of the balance of trade theory. C u n n i n g h a m has dealt with this remarkable change in the following passage. After having pointed out that in the earlier part of the seventeenth century, »the general balance served to indicate how much of the precious metals the king might hoard in any given years without withdrawing money from circulation», he continues: »In the latter part of the Stuart period and during the greater part of the eighteenth century the calculation of the balance of trade began to attract attention from another point of view. It was felt to be important for public men not only to know that the volume of our trade was increasing, but to see that this increased commerce was reacting favourably on the industry of the country. The examples of Spain and Portugal had made it clear that an enormous expansion of colonial and commercial enterprise was compatible with the decadence of the agricultural and industrial life of the mother country; whereas, in the case of Holland, expansion abroad had called forth increased vitality at home. Just as the men of the day asked not merely about the numbers of the population, but also took account of the opportunities of employment, so they endeavoured to use the

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<sup>1</sup> Petty, A Treatise of Taxes. Writings, I. p. 60.

balance of trade as an index which might show how the commerce of the country was affecting its industry. To what extent did it serve the great purpose of affording a vent for our surplus, and so increasing the demand for labour; or to what extent did it bring foreign competition to bear in the home market, and thus diminish the opportunities of native workmen?<sup>1</sup>

The account which Cunningham gives in this passage of the change taking place in the function ascribed to the balance of trade, is not quite correct. We have seen above that the theory of the balance of trade was from the very beginning much more than a mere formula on how gold and silver were to be procured. The very first expounders of balance of trade principles took account of the question how the commerce of the country was affecting its industry, only following in this traditional lines of policy.

But that a remarkable transformation of the balance theory actually took place at the end of the seventeenth century, is not to be denied. The real course of events appears from the following: When the theory of the balance of trade was first expounded its leading idea was the question how gold and silver were to be procured. The benefit of any trade was judged from the point of view of, whether it ultimately tended to increase or diminish the stock of these metals. Were the latter the case, no excuse could be advanced for carrying on such a «losing» trade. This principle was put clearly by Mun: «If the trade was unprofitable, let it be suppressed; if not, let it be supported and countenanced by some public declaration.»<sup>2</sup>

But little by little, the other great principle of the balance of trade, the labour principle, the care for procuring employment to labour and for extending the industry and commerce of England, began to gain in relative importance over the governing money principle. The precious metals, however, remained, as a

<sup>1</sup> Cunningham, o. c. Modern Times, p. 396.

<sup>2</sup> Mun, Petition and Remonstrance. Cf. Hewings, o. c., p. 62.

rule, the chief criterion of an advantageous trade until the end of the seventeenth century.<sup>1</sup>

With the eighteenth century the situation, however, becomes changed. The labour principle appears now more and more as the criterion by which the benefit of foreign trade is to be judged, the money principle appearing often as a mere afterthought. The old balance of trade theory was, indeed, in a dying condition. Already Mercator and the British Merchant were, generally, proceeding on new lines. Let us only listen to Mercator's assertions: «Were it true, as these people say, that we lose great sums by the ballance of commodities between the nations, which yet is manifest we do not, yet even with that loss, were we to suppose it true, we were better with the trade than without it, considering that at the same time we keep at home our goods and our ships.

I shall explain my meaning thus: suppose we sold four hundred thousand pounds a year to France, in English manufactures, or any other sum, let them take it as they will, a certain sum for an uncertain, and took back from France eight hundred thousand pounds value, in the produce and manufacture of that kingdom, yet may we be gainers by this trade; and it may be so, that it were better for us to carry on this trade than not.

First, the making and venting of four hundred thousand pound sterling in manufactures, is the employ and subsistence of a prodigious multitude of poor, whereas the import of the foreign goods being a superfluous expence, goes out of the hands of but a few; and it were better to abate a hundred thousand pound a year in

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<sup>1</sup> The following passage of the *Britannia Linguens*, in which «profits» appear only as a secondary thought, forms a rare exception in seventeenth century mercantile literature, the author charges companies with mischievous profit-hunger: «These companies having also monopolies on these forreign natives with whom they trade, may set arbitrary prizes upon them, for our home-manufactures exported, and will get more, by selling a little very dear, then by selling much more at moderate profits» (Early Engl. Tracts, p. 335)

the publick ballance, than not export four hundred thousand pound a year in manufactures.»<sup>1</sup>

This passage, though representing an advanced opinion, reflects the attitude of many economists of the eighteenth century. When we mention De Foe, Berkeley, John Smith, Tucker and Stuart, we have mentioned the chief supporters of this reformed balance of trade theory. Tucker comes, indeed, to give the theory even a new name: »In a word, where the greater numbers are employed, there lies the ballance; — such a ballance, I mean, as only deserves public regard: The ballance of industry; for money without industry, is an hurt, not a blessing.»<sup>2</sup>

These considerations have put beyond doubt that it was not the introduction of any new labour principle by which a change in the balance theory was brought about. As a matter of fact, »the balance of industry» of which Tucker speaks, was potentially present already in Mun's *England's Treasure by Foreign Trade*, though holding only a subservient place. Indeed, the change was actually called forth by the fact that the relative importance of the two great principles of the balance of trade, the money principle and the labour principle, underwent a change. As time advanced, gold and silver were rapidly losing the peculiar position which they had held in the age of early capitalism, a position of which an analysis has been given in earlier parts of this study. With the decline of the money principle, the rival principle, of course, automatically gained in importance. But that was not all; the labour principle itself grew in vigour all the time. England was energetically developing from an agricultural to an industrial country. The manufacturing interest grew stronger and a keen competition arose with foreign industries. The balance theory came, naturally enough, to be more and more a defence of protectionism. The cry being: Employment for labour!

<sup>1</sup> Mercator, Nr. 48.

<sup>2</sup> Tucker, *The Elements of Commerce*, p. 103.

These short remarks suffice, perhaps, to characterize the change in the function ascribed to the balance of trade which took place at the end of the seventeenth century and during the first part of the eighteenth. A closer examination falls outside the specific object of the present study. It was only thought necessary to refer to this reformation of the balance of trade theory in order to get a correct view of the relative importance of the factors of which the theory was composed.

### The Function of Import.

Import signified for seventeenth century economists, in the first hand, import of gold and silver. Other items of import played a less conspicuous part in mercantile considerations, and when account was taken of them, it was often in a negative sense, for the purpose of devising preventives of such importation. This prevailing attitude of mercantilism has done its share in propagating the notion that mercantile writers regarded gold and silver as the only wealth, or, may be, the only capital, and that the favourable balance of trade was treated as synonymous with a balance of production over consumption.<sup>1</sup>

In order to obtain a fair judgment of the mercantile conception of import, account must be taken of the state of commerce in the seventeenth century. Now, even a most superficial survey of the conditions then prevailing, demonstrates that the nature of importations differed fundamentally from what we customarily understand by import. England was in the age of early capitalism in a high degree independent of the things procured by foreign trade (gold and silver excluded), being still a country exporting corn, and her chief industry, the woollen manufacture, being

<sup>1</sup> Heyking, for instance, charges mercantilists with having held money alone as capital, since they did not perceive that a consumption of foreign goods tends often indirectly to increase the productive powers of the nation, so that the original expenditure may ultimately be fully compensated by an extended production' (O c, p. 74)

supplied with raw material from the home market, she was almost self-sufficient. Only a smaller part of her import consisted of indispensable necessities and raw materials, such as tar, salt, timber, etc. «Exchange between nation and nation of the bulky articles which constitute the necessities of life is a thing which has grown up with modern facilities of transport. In the seventeenth century the articles other than bullion imported into England were mostly of a somewhat insignificant character. Most of them were superfluous, and many deleterious.»<sup>1</sup> Silks, furs, fine cloth, wines, spices made a great show among the imports.

Seen against this background of historical conditions, the mercantile attitude of indifference or direct hostility towards the importation of foreign goods finds its explanation. For it makes, of course, a vast difference whether imported goods consist chiefly of luxuries, or indispensable necessities of life and capital goods. In the opinion of Adam Smith, if the proprietors of gold and silver «employ it in purchasing foreign goods for home consumption, they may either, first, purchase such goods as are likely to be consumed by idle people who produce nothing, such as foreign wines, foreign silks, &c.; or, secondly, they may purchase an additional stock of materials, tools, and provisions, in order to maintain and employ an additional number of industrious people, who re-produce, with a profit, the value of their annual consumption.

So far as it is employed in the first way, it promotes prodigality, increases expence and consumption without increasing production, or establishing any permanent fund for supporting that expence, and is in every respect hurtful to the society.

So far as it is employed in the second way, it promotes industry; and though it increases the consumption of the society, it provides a permanent fund for supporting that consumption, the people who consume re-producing, with a profit, the whole value of their annual consumption.»<sup>2</sup>

<sup>1</sup> Cannan, *Theories of Production*, p. 3.

<sup>2</sup> Adam Smith, *o. c.*, I. pp. 277—8.

The great critic of mercantilism appears in this passage as a vindicator of the theory of the balance of trade. For in the seventeenth century the greater part of the expense on foreign commodities was, indeed, according to the passage of Smith «in every respect hurtful to the society». That was just what the mercantile writers thought it to be! These writers were only not generally able or did not care to express their opinion so precisely as Smith did. Instead of expressly stating, «We do not want foreign commodities except, those of real benefit for the progress of economic life», they argued in their generalizing way, «We do not want foreign commodities», and the unstated reason was, «Because they mostly consist of luxuries and such consumable commodities which tend to increase consumption without increasing production». In not a few mercantile expositions, indeed, may be found a view clearly discriminating between what were regarded as necessary and what, unnecessary commodities to be imported.

Thus John Hales writes «I mervell no man taketh heade unto it, what nombre first of trifles commeth hether from beyonde the seas, that we might ether cleane spare, or els make them with in oure owne realme», such as «glasses, as well lookinge as drinckinge, as to glasse windowes, dialles, tables, cardes, balles, puppetes, penhorne, inckehorne, toothepikes, gloves knives, daggers, pouches, broches, agletes, buttons of silke and silver. erthen pottes, pinnes, poyntes haukes belles, paper both whit and browne, and a thousand like thinges»<sup>1</sup>. On the other hand, Hales approves of importing iron and salt as well as «tar, rosin, pitch, oile, steale»<sup>2</sup>. Lord Bacon writes «In the importation of foreign commodities let not the merchant return toys and vanities, as sometimes it was elsewhere apes and peacocks; but solid merchandise first for necessity next for pleasure but not for luxury»<sup>3</sup>. Malynes repudiates the giving the good commodities, or even gold, silver and precious things, «for beades, bells, knives, looking-glasses, and

<sup>1</sup> Hales, o.c., p. 63

<sup>2</sup> Hales, o.c., pp. 61-2

<sup>3</sup> Cf. Heyking, o.c., p. 66, note 1

such toys and trifles; on the other hand, England shall with adventure make return «in very needfull and necessarie commodities of pitch, tar, deales, clapboards, cables, ropes, and such like».<sup>1</sup> Misselden asserts that the «general remote cause» of the want of money is the great excess in consuming foreign commodities «which prove to us discommodities, in hindering us of so much treasure, which otherwise would bee brought in, in lieu of those toys»; and he enumerates as such «toys»: wines, raisins, silks, sugar and tobacco, etc.; «all which are of no necessity unto us, and yet are bought with ready money».<sup>2</sup>

Roberts points out that «some have also eased all raw materials, that have bene imported, being commodities, tending to set the poore subjects on work, as is cotten, hempe, yarne, flaxe, wools, raw silke, and the like; and all these practised in some places, have met with a happy successe, which hath both enriched the subject, set the poore native artists on worke, and proved the maine furtherer of the commerce of that kingdome, where the same hath been daily, and industriously put in use and practised». He further maintains that «graine, butter, cheese, and all provisions for food, should every where be freely receaved», and that also «all ammunition for the defence of our countrey — — are ever to be receaved».<sup>3</sup> Lastly, the following instructive passage from the *Britannia Languens* may be quoted: «Our importations must as necessarily be increased, both by the decay of our own former manufactures at home, and by our modern gawdry and affectation of foreign goods; and as our trade from port to port hath become more impracticable to any advantage, the exporters of our remaining manufactures and other home-commodities, must either come back empty, or else must freight themselves homewards with such consumptive foreign commodities, as for gawdry, novelty, cheapness, or lyquorishness, will dazle, tempt and bewitch our people to buy them; in which course of trade our

<sup>1</sup> Malynes, *A Treatise of the Canker*, pp. 68, 71.

<sup>2</sup> Misselden, *Free Trade*, pp. 11—12.

<sup>3</sup> Roberts, *o. c.*, pp. 75—7.

merchants may gain considerable proportions of our remaining treasures as long as there is any in the nation. Nay, rather than sit idle, they will, and do freight themselves outwards with meer ballast and bills of exchange (by which the importation of foreign bullion or money is prevented): or if bills of exchange cannot reasonably be had (as they usually cannot to those countries where we are over-ballanced in trade), then they export money and bullion and buy and import consumptive goods which are spent at home; which kind of trade deserves rather to be called foreign peddling, than merchandise.\* A little later the author asserts that «this consumptive importing trade must be of very fatal consequence in its nature»<sup>1</sup>

It has appeared from passages quoted above that importations were detested on account of their «consumptive» character, they were believed to further, primarily, unnecessary consumption and not productive activities of the nation, and to interfere with the employment of labour. But as far as raw materials and commodities supplying elementary wants of the nation actually were included in the importations, not only was the attitude of mercantile writers not hostile, but the import of those commodities was regarded to be in the true interest of the nation. This attitude was only natural and in accordance with the general principles of mercantilism, as the import of these commodities, especially of raw wares, ultimately tended to improve the general balance of trade. This point of view was distinctly stated in the following passage of the *Britannia Languens* «If foreigners will vend their raw materials of manufacture, it is necessary, or highly convenient for a nation to import them, and put them into manufacture at home; after which, this manufacture may be either exported and sold for much more than the materials cost, or being used at home, will prevent the necessity of importing the like from abroad, by which the nation will save to the value of the manufacture.»<sup>2</sup>

<sup>1</sup> *Britannia Languens*. Early Engl. Tracts, pp. 372-4.

<sup>2</sup> *Britannia Languens*. Early Engl. Tracts, p. 299.

This trend of thought seems to have been further developed, at the end of the century, in the direction that certain other categories of commodities besides gold and silver came directly to be included in the idea of a favourable balance of trade. D' Avenant, for instance writes: »We agree so far with Mr. Pöbexfen, that when we speak of trade in general, the gain is so much only as the nation does not consume of the imports; but either lays up in commodities, in specie, or converts into money, or some such adequate treasure.»<sup>1</sup> Another passage of the same author runs as follows: »Mr. King observes, that by how much the nation does not consume of its imports, but either lays up, or encreases the stock of gold or silver, or other adequate treasure, or of durable commodities in specie; by so much, at least, does the nation gain by foreign trade, besides all other advantages of navigation.»<sup>2</sup> And Locke proposes: »Upon examination it will be found, that our growing rich, or poor, depends not at all upon our borrowing upon interest; or not; but only, which is greater or less, our importation, or exportation of consumable commodities.»<sup>3</sup>

A current running against the predominant idea of the function of foreign trade, was the vision of an international division of labour, hints of which may now and then be found in early mercantile literature. Thus Hales asserts that »God hath ordeined that no countrie shoulde have all commodities; but that, that one lacketh, an other bringes furth, and that, that one countrie lacketh this yeare, a nother hath plentie thereof the same yeare, to the entent that one maie know they have nede of a nothers healpe, and therby love and societie to grow emonst all the more». <sup>4</sup> Malynes writes in a similar vein: »God caused nature to distribute her benefits, or his blessings to severall climates, supplying the barenesse of some things in our country, with the fruit-

<sup>1</sup> D' Avenant, Discourses on the Public Revenues. Works, II. pp 17—18.

<sup>2</sup> D' Avenant, An Essay upon Probable Methods. Works, II. p. 273.

<sup>3</sup> Locke, Considerations. Essays, p. 567.

<sup>4</sup> Hales, o. c., p. 61.

fulnesse and store of other countries, to the ende that enterchangeably one common-weale should live with another.»<sup>1</sup> Misselden has given to the same idea a fine expression »And to the end there should be a commerce amongst men, it hath pleased God to invite as it were, one country to traffique with another, by the variety of things which the one hath, and the other hath not: that so that which is wanting to the one, might be supplied by the other, that all might have sufficient. Which thing the very windes and seas proclaime, in giving passage to all nations. the windes blowing sometimes towards one country, sometimes toward another that so by this divine iustice, every one might bee supplied in things necessary for life and maintenance.»<sup>2</sup> D'Avenant expresses the mutual dependency of the nations as follows. »The various products of different soils and countries is an indication, that providence intended they should be helpful to each other, and mutually supply the necessities of one another. And as it is great folly to compel a youth to that sort of study, to which he is not adapted by genius and inclination so it can never be wise, to endeavour the introducing into a country, either the growth of any commodity, or any manufacture, for which, nor the soil, nor the general bent of the people is proper and as forced fruits (though they may look fair to the eye) are notwithstanding tasteless and unwholesome, so a trade forced in this manner, brings no natural profit, but is prejudicial to the public.»<sup>3</sup>

These passages are of particular interest as early forerunners of the free trade doctrine. But in regard to them may be justly

<sup>1</sup> Malynes, *A Treatise of the Canker*, p. 6

<sup>2</sup> Misselden, *Free Trade*, p. 25

<sup>3</sup> D'Avenant, *An Essay on the East India Trade Works*, I pp. 101—5. In Pollexfen we find the following passage »Most trades are carried on between nations by a permutation of commodities, as a mutual conveniency, for the supplying each the other with what they want, providence having so ordained that different nations may abound with different commodities. (A Discourse of Trade, p. 59)

remarked that they exerted at their time little, if any influence upon the balance theory, being of more or less occasional character and lying wholly apart from the highway of mercantile thought.

## 4.

We have now a picture of the function of foreign trade: Export meant a necessary outlet for home products, consequently more employment and, ultimately, bigger population. In import, gold and silver were (together with raw materials) the most desirable commodities, for instead of tending to lessen employment at home, or to induce people to «debauchery», as was the case with the bulk of imported goods, they were performing, as standards of money and stores of value, the most essential economic functions. Writers of the age of early capitalism may, therefore, well be excused for having thought that the main function of import was to introduce gold and silver rather than articles of luxury and other commodities of questionable value, and for calling a balance of gold and silver «favourable» above any alternative balance of trade.

A favourable balance of trade was, thus, to further economic progress. This role was, without doubt, in itself very important indeed. But, the question now arises, were the services which a favourable balance rendered to society, after all, of such a universal value as to justify the exclusive attention paid to it by mercantile economists above all other questions of economic life? Or, was it not rather the case that these economists had, by making all factors of production subservient to a single factor, the balance of trade, to a certain degree lost the sense of proportion?

Take, for instance, the question of land as an economic category. Land was not paid nearly so much attention, as the other agents of production, or, as industry and commerce. Nowhere in the economic literature of the seventeenth century was emphasis given to the economic value of land, in any way comparable to that given later by physiocratic economists, or, indeed, already

by Vanderlint, the early forerunner of physiocracy, who founded his system upon the productivity of land: »All things, that are in the world, are the produce of the ground originally; and thence must all things be raised. The more land therefore shall be improv'd and cultivated, etc. the greater will the plenty of all things be, and the more people will it also employ.»<sup>1</sup>

And then there is the question of foreign trade and home trade. The treatment of them was all but well-balanced. Sir Dudley North already regarded it as necessary to protest against assertions »that the home-trade signifies nothing to the enriching a nation and that the increase of wealth comes out of foreign trade», by pointing out that the foreign trade cannot subsist without the home trade.<sup>2</sup> And it makes the impression of a real economic discovery when the British Merchant comes forward with the assertion that home trade is more important than foreign trade. »All our annual exportations to foreign countries, both of our own and foreign goods and merchandizes, do not amount to seven millions; and therefore since our own people are a market for our own product and manufactures to the value of forty — two millions yearly, all our foreign markets join'd together are not one sixth part of that value.»<sup>3</sup>

The apparent fallacy of mercantile argumentation was pointed out by a later mercantilist, who was already emancipated from the old theory of the balance of trade, in an able and convincing passage: »Some figuring to themselves a circle of commerce, which takes in the several interests of the community, fix upon foreign trade, as the first point; as if there was any such thing as first, or last, in a circle, or that by striking out any one point, the circle would not be destroyed. But figurative expressions, it may be said, are not to be taken strictly; which tho' it be true,

<sup>1</sup> Vanderlint, *Money answers all Things*, p. 6.

<sup>2</sup> North, o. c., *Econ. Tracts*, p. 28. This statement of North has, characteristically enough been treated as a challenge to a »cardinal mercantilist idea» (Haney, *History of Economic Thought*, p. 93).

<sup>3</sup> British Merchant, I. p. 167.

and a circle is no improper emblem in this case; yet to consider the body politic of the nation under the similitude of a plant, or a tree, is at least as proper; and then land will undoubtedly be acknowledged as the root and the stem. Or again, if we speak of the community, as a fabric, — — the land will be allowed to be the foundation and chief corner-stone. And therefore, to think of enriching the community with trade, by exposing the land-owners particularly to hardship and loss, is as in a planting, to fix the branches in the earth, instead of the root; in building, to attempt the upper story first. It is in short, to think of thriving by trade, without customers, or by customers, who are without money.<sup>1</sup>

These lines of argument have demonstrated that mercantilism, at least that of the seventeenth century, did not offer any well-balanced theory of production. It is, however, not quite fair to use that argument as criticism of the balance theory, for such a criticism would be to expect to find what never was intended to be given. For as has appeared in the course of this study and has also been expressly stated on several occasions, mercantilists did not generally care for nicely balanced economic principles. Pamphleteers as they mostly were, they were primarily pursuing certain practical ends; They were in search of a working plan of economic progress, the crucial question being: How to improve the economic state of the country?

Now, in such a working plan of economic progress many things appeared, necessarily, in another light and order than would have been the case in an «Inquiry into the Nature and Causes of the Wealth of Nations». The inquiry being dynamic, stress came to be laid, of course, not upon the nature of wealth, but upon the conditions of production. It has, indeed, appeared above, that not so much wealth as the agents of production and money, were primarily described as «riches» in mercantile literature.

<sup>1</sup> John Smith, *Chronicon Rusticum*, I. pp. 334—5.

The practical problem to be solved, consequently, was that of preserving and strengthening the productive powers of the nation, «the procuring causes of riches»<sup>1</sup>

And so, the particular agents of production came to be ascribed a very unequal importance. Thus land, according to John Smith «the root and stem» was here of less consequence than the other agents of production. And that for the simple reason that there did not exist any scarcity of land, nor could it be taken away by any ill-will or cunning policy of foreign nations. Plenty of land lay ready for use, if only other agents of production were procurable in sufficient amount. Mun asserted «And indeed our wealth might be a rare discourse for all Christendome to admire and fear, if we would but add art to nature, our labour to our natural means»<sup>2</sup>. And Child said «It is evident that this kingdom is wonderfully fitted by the bounty of God Almighty, for a great progression in wealth and power: and that the only means to arrive at both or either of them, is to improve and advance trade»<sup>3</sup>.

The reality of production depended upon a sufficient supply of the other agents of production, labour and capital, and of money. The foundation of labour was the «stock» of the people. This «stock» of the people could be increased and improved in quality by a wise economic policy, therefore great attention was paid to this question in mercantile literature. Different expedients were recommended and applied for that purpose. Here it is only of interest to note that the principles of the balance of trade came thereby to play an important role. Manufacture and commerce were given precedence above agriculture. This point of view was put down very distinctly by Mun. «In all things we must endeavour

<sup>1</sup> «Whatever does advance the value of land in purchase, improve the rent of farms, increase the bulk of foreign trade, multiply domestick artificers, encline the nation to thriftiness, employ the poor, encrease the stock of people, must be a procuring cause of riches (Child, o c, p 16)

<sup>2</sup> Mun, o c, p 100

<sup>3</sup> Child, o c, Pref

to make the most we can of our own, whether it be natural or artificial; and forasmuch as the people which live by the arts are far more in number than they who are masters of the fruits, we ought the more carefully to maintain those endeavours of the multitude, in whom doth consist the greatest strength and riches both of king and kingdom: for where the people are many, and the arts good, there the traffique must be great, and the countrey rich — — But what need we fetch the example so far, when we know that our own natural wares doe not yield us so much profit as our industry? For iron oar in mines is of no great worth, when it is compared with the employment and advantage it yields being digged, tried, transported, bought, sold, cast into ordnance, muskets, and many other instruments of war for offence and defence, wrought into anchors, bolts, spikes, nayles and the like, for the use of ships, houses, carts, coaches, ploughs, and other instruments for tillage. Compare our fleece-wools with our cloth, which requires shearing, washing, carding, spinning, weaving, fulling, dying, dressing and other trimmings, and we shall find these arts more profitable than the natural wealth.<sup>1</sup> In the *Britannia Linguens* we find the following passage: »Manufacture and a great forreign trade, will admit of and oblige an increase of people even to infinity: And the more the manufacturers increase, they will the more enrich one another, and the rest of the people; It may then be

<sup>1</sup> Mun, o. c., pp. 17—8. — Here may be pointed out as an interesting incident that M. Joseph Caillaux, the ex-Prime Minister of France, has recently pleaded for manufacture above agriculture, just in the spirit of mercantilism, as a way to bigger population: — As an agricultural country France cannot hope to maintain a population even approximating that which industrial countries can support on the food they import in exchange for their manufactures. If France is to have as many sons as she thinks necessary for her safety, she must submit her fair face to the disfiguring process of industrialisation. — To this the *Manchester Guardian*, which relates it, adds: »The logic of M. Caillaux is irrefutable» (*Manchester Guardian Weekly*, The Population of France. 1923, VIII, p. 163).

proper to inquire how manufactures of a nation may be increased and improved.<sup>1</sup>

As to capital, it has already been pointed out that the artificial implements which were in use required no special attention, as they were, as a rule, inexpensive and easily procurable by adding labour to the natural means. Only one form of capital was in a very different position: ships. But then, shipping was duly in the foreground of the discussions and the current opinion was that it was best taken care of by taking care of the expansion of foreign trade.

If we, lastly, consider the case of money, it was admittedly so far in a peculiar position that gold and silver could not be had at home. But as these metals were wholly indispensable for progressive economic life as well as for political safety, they came naturally to play a foremost part in the practical considerations of mercantile economists. The question above all other questions came to be: How to procure gold and silver from abroad? And the only practicable answer to be found by a favourable balance of trade!

Seen from this point of view, the fixing upon foreign trade as the first point in the circle of commerce was not so absurd as John Smith thought, for as stated by the *Britannia Languens*: 'The home trade in every nation hath dependance on the foreign trade, if a nation hath no gold and silver-mines within its own territory, there is no practicable way of bringing treasure into it (in times of peace) but by foreign trade. And if such a nation be not enriched by imported treasure, its home trade can only be managed by exchange of goods for goods.'<sup>2</sup> Nor did it mean fixing the branches in the earth, instead of the root, or attempting to build the upper storey first, when manufacture was preferred before agriculture. In a working plan of economic progress that was the practicable order: the increase

<sup>1</sup> *Britannia Languens* Early Engl. Tracts, p. 302.

<sup>2</sup> *Britannia Languens* Early Engl. Tracts, pp. 289—90.

of labour, capital, and money lead to improved and extended agriculture, and not the converse. This point of view was stated by D'Avenant as follows: »Für the future, as we grow in riches and as our people encrease, those many millions of acres which now are barren, will by degrees most of them be improved and cultivated; for there is hardly any sort of ground which numbers of men will not render fertile.«<sup>1</sup> Here may also be quoted an interesting passage of Locke, in which is pointed out that only by expansion of trade and introduction of money economy, was the necessary spur given to agricultural improvements. The passage runs as follows: »As different degrees of industry were apt to give men possessions in different proportions, so this invention of money gave them the opportunity to continue and enlarge them. — — Where there is not something both lasting and scarce, and valuable to be hoarded up, there men will not be apt to enlarge their possessions of land, were it never so rich, never so free for them to take; for I ask, what would a man value ten thousand or a hundred thousand acres of excellent land, ready cultivated, and well stocked too with cattle, in the middle of the inland parts of America, where he had no hopes of commerce with other parts of the world, to draw money to him by the sale of the product? It would not be worth the enclosing, and we should see him give up again to the wild common of nature whatever was more than would supply the conveniences of life to be had there for him and his family.«<sup>2</sup>

<sup>1</sup> D'Avenant, *An Essay upon the Probable Methods*, Works, II. p. 221.

<sup>2</sup> Locke, *Of Civil Government*, pp. 34—5. This point of view was stated with greater accuracy by Süssmilch, the celebrated German statistician, in the following interesting passage: »So richtig es ist, dass der Ackerbau den Fabriken insoweit vorzuziehen, dass die erste und vornehmste Sorgfalt auf dessen Beförderung gerichtet sein muss, so ist es doch ebenso gewiss, dass die möglichste Verbesserung des Ackerbaues nicht eher erfolgen könne, als bis nebst den nöthigsten Fabriken und Manufakturen auch der Handel befördert worden. Ohne diese wird der Ackerbau immer bey dem mittelmässigen stehen bleiben. Je mehr inländische Produkte in den Fabriken

The best evidence of the relative practicability, at least, of this «system» of mercantilism, in which, the balance of trade appearing as a criterion of the state of economic life, foreign trade was valued above home trade, and manufacture and trade, above agriculture, is the fact that there is no proof that, in England, home trade and agriculture were impaired by the system. The contrary seems, rather, to have been the case.<sup>1</sup> We have already in an other connection pointed out that the increase of population and expansion of industry and commerce tended to further agriculture by increasing effective demand for land and the products thereof. De Foe has described in an interesting passage how these results were brought about: «Trade has been a principal agent even in the improvement of our land as it has furnished the money to the husbandman to stock his land, and to employ servants, and labourers in the working part, and as it has found him a market for the consumption of the produce of his land, and at an advanced price too, by which he has received a good return to enable him to go on

The short inference from these premises is thus as by trade the whole kingdom is thus advanced in wealth, and the value of lands, and of the produce of lands, and of labour, is so remarkably increased, why should we not go on with vigour and spirit in trade,

verarbeitet werden, desto mehrere werden gebaut. Die Vermehrung der Consumtion vermehrt auch den Getreidebau Und es ist noch die Frage, ob eine gute Agronomie eher werde stattfinden können, bis der Fleiss in jenen Stücken gehörig befördert ist Der Ackerbau in Engelland wurde wol nie so hoch gekommen seyn, wenn ihm der ausgebreitete Handel nicht zu Hülfe gekommen wäre» (Quoted by Sombart, *o c.*, II pp 940—1) Sombart strongly emphasizes the dynamic viewpoint of mercantilism, maintaining that physiocrats, by starting from agriculture, put, evidently, the cart before the horse and made the effect the cause (*O c.*, II p 940) Roscher has also distinctly defended the mercantile point of view (*Geschichte der National-Oekonomie*, p 234)

<sup>1</sup> It should be remembered that the economic policy of the day directly fostered the interest of the agricultural producer Cf above, p 90

and by all proper and possible methods and endeavours, increase and cultivate our commerce; that we may still increase and improve in wealth, in value of lands, in stock, and in all the arts of trade. Such as manufactures, navigation, fishery, husbandry, and, in short, study an improvement of trade in all its branches.»<sup>1</sup>

In understanding the balance of trade to be the criterion of the state of economic progress, mercantilism differs from what has been the current view at a later time; not a balance of trade, but a balance of production over consumption has signified the degree of prosperity of a nation. This view was clearly stated already in the Lectures of Adam Smith: »It may be observed in general that we never heard of any nation ruined by this balance of trade. — It is to be observed that the poverty of a nation can never proceed from foreign trade if carried on with wisdom and prudence. The poverty of a nation proceeds from much the same causes with those which render an individual poor. When a man consumes more than he gains by his industry, he must impoverish himself unless he has some other way of subsistence. In the same manner, if a nation consume more than it produces, poverty is inevitable; if its annual produce be ninety millions and its annual consumption an hundred, then it spends, eats, and drinks, tears, wears, ten millions more than it produces, and its stock of opulence must gradually (go) to nothing.»<sup>2</sup>

The difference between the mercantile and the liberal point of view was not accidental, arising merely from confusion in thought, but it was deep-rooted in the different character of these economic systems. Liberals, starting from the question: What is the end of economic activity?, answered: Producing wealth for satisfying human wants, i.e. the ultimate end is consumption.

<sup>1</sup> De Foe, *An Humble Proposal*. Works, XVIII, pp. 10—11.

<sup>2</sup> Adam Smith, *Lectures*, pp. 206—7. — Seligman says: »Judged from the present point of view, the error of the Mercantilists lay in confounding a balance of exports over imports with a surplus of production over consumption (*Principles*, p. 117).

Adam Smith said: «Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident, that it would be absurd to attempt to prove it.»<sup>1</sup> That maxim had, however, not always been so perfectly self-evident: «But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce.»<sup>2</sup>

This passage of Smith is, without doubt, to the point as showing the fundamental difference between mercantilism and liberalism. For true it is that in mercantile literature of England, in the seventeenth century at least, production was not, as a whole, regarded as the servant of consumption, and wealth brought into relation with the material well-being of individuals.<sup>3</sup> Individuals were mentioned in mercantilism, not as the fundamental cause for industry, but generally, as means to acquiring that wealth upon which the economic and political strength of the country depended. People represented, indeed, a «capital material», which «being of it self raw and indigested is committed into the hands of the

<sup>1</sup> Adam Smith, *The Wealth of Nations*, II. p. 159.

<sup>2</sup> Adam Smith, *ibidem*.

<sup>3</sup> Mercantilists did not, of course, overlook the services rendered by trade in supplying elementary human wants. But these services were less esteemed as increasing individual well-being than as being a practical necessity. Adam Smith measured at the very outset of his «Wealth» the wealth of a nation by the proportion which its produce bears to its population thus considering that nation which was well supplied with all the necessities and conveniences for which it had occasion, to be a wealthy nation. (*The Wealth of Nations*, I. p. 1). In the seventeenth century, the national wealth was understood to be «the aggregate and not the average wealth, and to general opinion in the first half of the eighteenth century the plan of creating an imaginary average individual as the representative of the nation would have appeared strange and almost incomprehensible» (Cannan, *Theories of Production*, p. 11).

supreme authority; in whose prudence and disposition it is, to improve, manage, and fashion it to more or less advantage.<sup>1</sup> Only much later did it begin to dawn on some mercantilists that «the number of people is both means and motives to industry».<sup>2</sup>

The logical consequence of the fact that the 'people' were primarily thought of as a capital material, was that consumption also came primarily to be a servant of production, and not a means of satisfying human wants. It was approved of if furthering, it was condemned if impairing the productive powers of the nation: — Money, people, shipping, fishery, etc. The deciding rule was, that consumption was injurious, if the stock of gold and silver was thereby diminished, either directly by wasting money upon foreign superfluities, or indirectly by consuming home products which would have possibly found a market abroad. Practically, in all other cases consumption was regarded as beneficial. «Wealth» (in the modern sense of the word) was readily sacrificed if the productive powers of the nation seemed thereby to be supported, if labour was employed, agriculture, fishery, shipping and other useful economic activities promoted. That explains why home consumption was not considered to impoverish the nation, and why a great trade was recommended even when the return consisted of undesirable commodities. The following passage of Petty gives, indeed, to this cardinal idea of mercantilism an admirably concise and lucid expression: «As for prohibition of importations, I say that it needs not be, until they much exceed our exportations. For if we should think it hard to give good necessary cloth for debauching wines, yet if we cannot dispose of our cloth to others, it were better to give it for wine or worse, than to cease making it: nay, better to burn a thousand mens labours for a time, than to let those thousand men by non-employment lose their faculty of labouring.»<sup>3</sup>

<sup>1</sup> Britannia Languens. Early Eng. Tracts, p. 458.

<sup>2</sup> Berkeley, An Essay towards preventing the Ruin. Works, IV. p. 324.

<sup>3</sup> Petty, A Treatise of Taxes. Writings, I. p. 60. Cf. also passages quoted above, pp. 124—6 and p. 140.

These considerations have made it manifest that a balance of production over consumption could not possibly appear to mercantile writers as the first criterion of economic progress. Creation of «wealth» was not regarded as the final object of production, but only as a means to the further end: creation of productive powers. A balance of productive powers was, accordingly, the true criterion of economic progress. But this balance of productive powers appeared to mercantilists in the shape of the balance of trade, as has been shown in the course of this study.<sup>1</sup> This function of the balance of trade, to which the economic progress of the nation was considered subservient, was stated by Mun in the closing passage of his famous treatise of foreign trade, as follows: «Behold then the true form and worth of forraign trade, which is, the great revenue of the King, the honour of the kingdom, the noble profession of the merchant, the school of our arts, the supply of our wants, the employment of our poor, the improvement of our lands, the nurcery of our mariners, the walls of the kingdoms, the means of our treasure, the sinnews of our wars, the terror of our enemies. For all which great and weighty reasons, do so many well governed states highly countenance the profession and carefully cherish

<sup>1</sup> It is not our task here to judge, whether mercantilism was right or wrong in its view of the productive powers of the nation. That is a problem arising out of mercantilism in general; we have been considering only the importance of the favourable balance of trade in mercantilism. It may be noted, however, that opinions seem to have varied on this point. Cunningham has recognized the real fallacy of mercantilism in its relation to consumption: «It was assumed, as an obvious maxim, that additional employment would be furnished either by opening up new markets and thus securing a vent for our commodities, or by stimulating consumption at home. Unsound doctrine in regard to the consumption of wealth, rather than any confusion as to the nature of wealth, appears to have been the most widely current economic fallacy of the times» (O. c. *Modern Times*, pp. 391—2). Sombart, on the other hand, is of the opinion that mercantilists were right in recommending consumption of luxuries, as the development of capitalist industry was thereby mightily furthered (O. c., II. p. 939. Cf. also *Luxus und Kapitalismus*, pp. 134—8).

the action, not only with policy to encrease it, but also with power to protect it from all forraign injuries: because they know it is a principal in reason of state to maintain and defend that which doth support them and their estates.<sup>1</sup>

<sup>1</sup> M u n, o. c., p. 119.

## VI. Conclusion.

Money economics and national economics form the characteristics of the epoch of early capitalism; natural economics and local economics were in decay; credit economics and world economics being still insignificant, compared with their later expansion.

«The Theory of the Balance of Trade» was a natural child of this age. (1) The economic services rendered by the precious metals as stores of value and standards of money were of peculiar importance. This importance was still further accentuated by the discovery of the American silver mines. (2) In England, gold and silver could be had only from abroad. And the only practicable means of procuring them was a favourable balance of trade, since other constituents of an international balance account were unimportant and not controllable. (3) In foreign trade, imports consisted to a great extent of luxuries and other unnecessary commodities; gold and silver, and raw materials, were the most desirable form of importation; gold and silver represented, at the same time, an effective demand for English products.

In such conditions, the question of the balance of trade came, necessarily, to play an important part. But mercantile speculations on the balance question were never formulated as an economic theory, in the strictest sense of the word. That would, indeed, have been beside the point, since the mercantile literature generally discussed practical and often very limited questions without showing much interest in theoretical problems.

By reducing speculations on the balance of trade, to be found in mercantile literature, from the rank of an economic theory to

that of a collection of practical experience and advice, we are able to do mercantilists more justice. Instead of reproving them for a theory, fallacious and insufficient, we may, on the contrary, grant that we find in their writings much common sense and also, often, fine theoretical judgment.

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